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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2020

☐

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-38420

VIRTRA, INC.

(Exact name of registrant as specified in its charter)

<u>Nevada</u> (State or other jurisdiction of incorporation or organization)	<u>93-1207631</u> (I.R.S. Employer Identification No.)
<u>7970 S. Kyrene Rd. Tempe, AZ</u> (Address of principal executive offices)	<u>85284</u> (Zip Code)

Registrant’s telephone number, including area code: (480) 968-1488

N/A

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
N/A	N/A	N/A

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of May 12, 2020, the registrant had 7,752,530 shares of common stock outstanding.

VIRTRA, INC.
FORM 10-Q

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PART I: FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

VIRTRA, INC.
CONDENSED BALANCE SHEETS

	March 31, 2020	December 31, 2019
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,116,893	\$ 1,415,091
Certificates of deposit	720,000	1,915,000
Accounts receivable, net	3,371,034	2,307,972
Interest receivable	6,752	7,340
Inventory, net	2,145,086	1,949,414
Unbilled revenue	1,821,636	3,579,942
Prepaid expenses and other current assets	471,428	353,975
Total current assets	11,652,829	11,528,734
Long-term assets:		
Property and equipment, net	1,137,641	1,028,198
Operating lease right-of-use asset	1,318,030	1,390,873
Intangible assets, net	238,895	217,930
That's Eatertainment note receivable, long-term, related party	291,110	291,110
Security deposits, long-term	19,712	19,712
Other assets, long-term	333,559	351,236
Deferred tax asset, net	1,895,000	1,792,000
Investment in That's Eatertainment, related party	840,000	840,000
Total long-term assets	6,073,947	5,931,059
Total assets	\$ 17,726,776	\$ 17,459,793
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 501,426	\$ 621,127
Accrued compensation and related costs	734,336	611,487
Accrued expenses and other current liabilities	474,308	334,751
Operating lease liability, short-term	303,182	297,244
Deferred revenue, short-term	2,956,486	2,490,845
Total current liabilities	4,969,738	4,355,454
Long-term liabilities:		
Deferred revenue, long-term	1,863,921	1,748,257
Operating lease liability, long-term	1,097,805	1,174,882
Total long-term liabilities	2,961,726	2,923,139
Total liabilities	7,931,464	7,278,593
Commitments and contingencies (See Note 10)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value; 2,500,000 authorized; no shares issued or outstanding	-	-
Common stock, \$0.0001 par value; 50,000,000 shares authorized; 7,752,530 shares issued and outstanding as of March 31, 2020 and 7,745,030 shares issued and outstanding as of December 31, 2019, respectively	776	775
Class A common stock, \$0.0001 par value; 2,500,000 shares authorized; no shares issued or outstanding	-	-
Class B common stock, \$0.0001 par value; 7,500,000 shares authorized; no shares issued or outstanding	-	-
Additional paid-in capital	13,898,201	13,894,680
Accumulated deficit	(4,103,665)	(3,714,255)
Total stockholders' equity	9,795,312	10,181,200
Total liabilities and stockholders' equity	\$ 17,726,776	\$ 17,459,793

See accompanying notes to unaudited condensed financial statements.

VIRTRA, INC.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended	
	March 31, 2020	March 31, 2019
Revenues:		
Net sales	\$ 3,320,013	\$ 3,011,701
That's Eatertainment royalties/licensing fees, related party	16,740	39,637
Other royalties/licensing fees	1,410	-
Total revenue	<u>3,338,163</u>	<u>3,051,338</u>
Cost of sales	<u>1,742,936</u>	<u>1,250,869</u>
Gross profit	<u>1,595,227</u>	<u>1,800,469</u>
Operating expenses:		
General and administrative	1,777,376	1,901,931
Research and development	<u>329,755</u>	<u>355,641</u>
Net operating expense	<u>2,107,131</u>	<u>2,257,572</u>
Loss from operations	<u>(511,904)</u>	<u>(457,103)</u>
Other income (expense)		
Other income	19,495	42,282
Other expense	<u>(1)</u>	<u>(5,081)</u>
Net other income	<u>19,494</u>	<u>37,201</u>
Loss before provision for income taxes	(492,410)	(419,902)
Benefit for income taxes	<u>(103,000)</u>	<u>(107,000)</u>
Net loss	<u>\$ (389,410)</u>	<u>\$ (312,902)</u>
Net loss per common share:		
Basic	\$ (0.05)	\$ (0.04)
Diluted	<u>\$ (0.05)</u>	<u>\$ (0.04)</u>
Weighted average shares outstanding:		
Basic	<u>7,745,363</u>	<u>7,765,624</u>
Diluted	<u>7,745,363</u>	<u>7,765,624</u>

See accompanying notes to unaudited condensed financial statements.

VIRTRA, INC.
CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

For the Three Months Ended March 31, 2020								
	Preferred Stock		Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2019	-	\$ -	7,745,030	\$ 775	\$13,894,680	\$ -	\$ (3,714,255)	\$10,181,200
Stock options exercised	-	-	7,500	1	6,299	-	-	6,300
Stock options repurchased					(2,778)			(2,778)
Net loss	-	-	-	-	-	-	(389,410)	(389,410)
Balance at March 31, 2020	-	\$ -	7,752,530	\$ 776	\$13,898,201	\$ -	\$ (4,103,665)	\$ 9,795,312

For the Three Months Ended March 31, 2019								
	Preferred Stock		Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2018	-	\$ -	7,827,651	\$ 783	\$14,272,834	\$ (37,308)	\$ (3,638,978)	\$10,597,331
Purchase of Treasury stock	-	-	-	-	-	(260,842)	-	(260,842)
Treasury stock cancelled	-	-	(78,946)	(8)	(298,142)	298,150	-	-
Net loss	-	-	-	-	-	-	(312,902)	(312,902)
Balance at March 31, 2019	-	\$ -	7,748,705	\$ 775	\$13,974,692	\$ -	\$ (3,951,880)	\$10,023,587

See accompanying notes to unaudited condensed financial statements.

VIRTRA, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended	
	March 31, 2020	March 31, 2019
Cash flows from operating activities:		
Net loss	\$ (389,410)	\$ (312,902)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	89,676	71,794
Right of use amortization	72,843	69,989
Reserve for note receivable	3,639	-
Deferred taxes	(103,000)	(107,000)
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,063,062)	(37,235)
That's Eatertainment note receivable, net, related party	(3,639)	(3,652)
Trade note receivable, net	-	4,304
Interest receivable	588	(1,027)
Inventory, net	(195,672)	(96,669)
Unbilled revenue	1,758,306	(441,285)
Prepaid expenses and other current assets	(117,453)	(434,684)
Other assets	17,677	(56,163)
Accounts payable and other accrued expenses	142,705	334,188
Payments on operating lease liability	(71,139)	(57,818)
Deferred revenue	581,305	167,562
Net cash provided by (used in) operating activities	723,364	(900,598)
Cash flows from investing activities:		
Purchase of certificates of deposit	-	(1,880,000)
Redemption of certificates of deposit	1,195,000	2,080,000
Purchase of intangible asset	(23,187)	(160,000)
Purchase of property and equipment	(196,897)	(94,994)
Proceeds from sale of property and equipment	-	2,631
Net cash provided by (used in) investing activities	974,916	(52,363)
Cash flows from financing activities:		
Repurchase of stock options	(2,778)	-
Stock options exercised	6,300	-
Purchase of treasury stock	-	(260,842)
Net cash provided by (used in) financing activities	3,522	(260,842)
Net increase (decrease) in cash	1,701,802	(1,213,803)
Cash, beginning of period	1,415,091	2,500,381
Cash, end of period	\$ 3,116,893	\$ 1,286,578
Supplemental disclosure of cash flow information:		
Cash paid:		
Taxes	\$ -	\$ -
Supplemental disclosure of non-cash investing and financing activities:		
Treasury stock cancelled	\$ -	\$ 298,150

See accompanying notes to unaudited condensed financial statements.

VIRTRA, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Organization and Significant Accounting Policies

Organization and Business Operations

VirTra, Inc. (the “Company,” “VirTra,” “we,” “us” or “our”), located in Tempe, Arizona, is a global provider of judgmental use of force training simulators, firearms training simulators and driving simulators for the law enforcement, military, educational and commercial markets. The Company’s patented technologies, software, and scenarios provide intense training for de-escalation, judgmental use-of-force, marksmanship and related training that mimics real-world situations. VirTra’s mission is to save and improve lives worldwide through practical and highly-effective virtual reality and simulator technology. The Company sells its products worldwide through a direct sales force and international distribution partners. The original business started in 1993 as Ferris Productions, Inc. In September 2001, Ferris Productions, Inc. merged with GameCom, Inc. to ultimately become VirTra, Inc., a Nevada corporation.

Basis of Presentation

The condensed financial statements included herein have been prepared by us without audit pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and should be read in conjunction with our audited financial statements for the year ended December 31, 2019 included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2019 filed with the SEC on March 23, 2020. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted as permitted by the SEC, although we believe the disclosures that are made are adequate to make the information presented herein not misleading.

The accompanying condensed financial statements reflect, in our opinion, all normal recurring adjustments necessary to present fairly our financial position at March 31, 2020 and the results of our operations and cash flows for the periods presented. We derived the December 31, 2019 condensed balance sheet data from audited financial statements; however, we did not include all disclosures required by GAAP.

Interim results are subject to seasonal variations, and the results of operations for the three months ended March 31, 2020 are not necessarily indicative of the results to be expected for the full year.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Significant accounting estimates in these financial statements include valuation assumptions for share-based payments, allowance for doubtful accounts and notes receivable, inventory reserves, accrual for warranty reserves, the carrying value of long-lived assets and intangible assets, income tax valuation allowances, the carrying value of cost basis investments, and the allocation of the transaction price to the performance obligations in our contracts with customers.

Reclassifications

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 financial statement presentation. These reclassifications had no effect on net earnings or cash flows as previously reported.

Revenue Recognition

The Company adopted the Financial Accounting Standards Board’s (the “FASB”) Accounting Standards Codification (“ASC”) 606, Revenue from Contracts with Customer (Topic 606) (“ASC 606”) on January 1, 2018 and the Company elected to use the modified retrospective transition method which requires application of ASC 606 to uncompleted contracts at the date of adoption. The adoption of ASC 606 did not have a material impact on the financial statements.

Under ASC 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation. Significant judgment is necessary when making these determinations.

The Company’s primary sources of revenue are derived from simulator and accessories sales, training and installation, the sale of customizable software and the sale of extended service-type warranties. Sales discounts are presented in the financial statements as reductions in determining net revenues. Credit sales are recorded as current assets (accounts receivable and unbilled revenue). Prepaid deposits received at the time of sale and extended warranties purchased are recorded as current and long-term liabilities (deferred revenue) until earned. The following briefly summarizes the nature of our performance obligations and method of revenue recognition:

Performance Obligation	Method of Recognition
Simulator and accessories	Upon transfer of control
Installation and training	Upon completion or over the period of services being rendered
Extended service-type warranty	Deferred and recognized over the life of the extended warranty
Customized software and content	Upon transfer of control or over the period services are performed depending on the terms of the contract
Customized content scenario	As performance obligation is transferred over time (input method using time and materials expanded)
Sales-based royalty exchanged for license of intellectual property	Recognized as the performance obligation is satisfied over time – which is as the sales occur.

The Company recognizes revenue upon transfer of control or upon completion of the services for the simulator and accessories; for the installation and training and customized software performance obligations as the customer has the right and ability to direct the use of these products and services and the customer obtains substantially all of the remaining benefit from these products and services at that time. Revenue from certain customized content contracts may be recognized over the period the services are performed based on the terms of the contract. For the sales-based royalty exchanged for license of intellectual property, the Company recognized revenue as the sales occur over time.

The Company recognizes revenue on a straight-line basis over the period of services being rendered for the extended service-type warranties as these warranties represent a performance obligation to “stand ready to perform” over the duration of the warranties. As such, the warranty service is performed continuously over the warranty period.

Each contract states the transaction price. The contracts do not include variable consideration, significant financing components or noncash consideration. The Company has elected to exclude sales and similar taxes from the measurement of the transaction price. The contract’s transaction price is allocated to the performance obligations based upon their stand-alone selling prices. Discounts to the stand-alone selling prices, if any, are allocated proportionately to each performance obligation.

Disaggregation of Revenue

Under ASC 606, disaggregated revenue from contracts with customers depicts the nature, amount, timing, and uncertainty of revenue and cash flows affected by economic factors. The Company has evaluated revenues recognized and the following table illustrates the disaggregation disclosure by customer’s location and performance obligation.

	For the Three Months Ended March 31,							
	2020				2019			
	Commercial	Government	International	Total	Commercial	Government	International	Total
Simulators and accessories	\$ 14,048	\$ 1,976,188	\$ 278,820	\$ 2,269,056	\$ 318,438	\$ 1,908,695	\$ 31,974	\$ 2,259,107
Extended service-type warranties	18,441	568,079	\$ 62,600	649,120	29,950	477,157	3,366	510,473
Customized software and customized content scenarios	18,940	231,998	\$ -	250,938	-	168,621	-	168,621
Installation and training	2,771	142,428	\$ 5,700	150,899	-	62,341	11,159	73,500
Licensing and royalties	18,150	-	-	18,150	39,637	-	-	39,637
Total Revenue	<u>\$ 72,350</u>	<u>\$ 2,918,693</u>	<u>\$ 347,120</u>	<u>\$ 3,338,163</u>	<u>\$ 388,025</u>	<u>\$ 2,616,814</u>	<u>\$ 46,499</u>	<u>\$ 3,051,338</u>

For the three months ended March 31, 2020, governmental customers comprised \$2,918,693, or 87% of total net sales, commercial customers comprised \$72,350, or 2% of total net sales, and international customers comprised \$347,120, or 10% of total net sales. By comparison, for the three months ended March 31, 2019, governmental customers comprised \$2,616,814, or 86% of total net sales, commercial customer comprised \$388,025, or 13% of total net sales, and international customers comprised \$46,499, or 2% of total net sales.

Customer Deposits

Customer deposits are recorded as a current liability under deferred revenue on the accompanying balance sheets and totaled \$1,270,747 and \$651,073 as of March 31, 2020 and December 31, 2019, respectively. Changes in deferred revenue amounts related to customer deposits will fluctuate from year to year based upon the mix of customers required to prepay deposits under the Company’s credit policy. Customer deposits are considered a deferred liability until completion of the customer’s contract performance obligations. When revenue is recognized, the deposit is applied to the customer’s receivable balance.

Warranty

The Company warranties its products from manufacturing defects on a limited basis for a period of one year after purchase, but also sells separately priced extended service-type warranties for periods of up to four years after the expiration of the standard one-year warranty. During the term of the initial one-year warranty, if the device fails to operate properly from defects in materials and workmanship, the Company will fix or replace the defective product. Deferred revenue for separately priced extended warranties one year or less totaled \$1,675,019 and \$1,829,052 as of March 31, 2020 and December 31, 2019, respectively. Deferred revenue for separately priced extended warranties longer than one year totaled \$1,863,921 and \$1,748,257 as of March 31, 2020 and December 31, 2019, respectively. The accrual for the one-year manufacturer’s warranty liability totaled \$360,176 and \$331,176 as of March 31, 2020 and December 31, 2019, respectively. During the three months ended March 31, 2020 and 2019, the Company recognized revenue of \$649,120 and \$510,473, respectively, related to the extended service-type warranties that was amortized from the deferred revenue balance at the beginning of each period. Changes in deferred revenue amounts related to extended service-type warranties will fluctuate from year to year based upon the average remaining life of the warranties at the beginning of the period and new extended service-type warranties sold during the period.

Customer Retainage

Customer retainage is recorded as a current liability under deferred revenue on the accompanying balance sheets and totaled \$10,720 as of March 31, 2020 and December 31, 2019. Changes in deferred revenue amounts related to customer retainage will fluctuate from year to year based upon the customer’s contract completion date allowing the Company to invoice and be paid the retainage.

Licensing and Royalties with Related Party

As discussed further in Note 8. Collaboration Agreement with Related Party, the Company licenses intellectual property to Modern Round, LLC (“MR”), a wholly-owned subsidiary of That’s Eatertainment Corp. (“TEC”), a related party, in exchange for sales-based royalties. Revenues from this agreement are recognized in accordance with the terms of the contract as the sales occur. The Company receives additional immaterial sales-based royalties from strategic partners.

STEP Revenue

The Company’s Subscription Training Equipment Partnership (STEP™) operations consist principally of renting its simulator products under operating agreements expiring in one year. At the commencement of a STEP agreement, any rental payments received are deferred and no income is recognized. Subsequently, payments are amortized and recognized as revenue on a straight-line basis over the term of the agreement. The agreements are generally for a period of 12 months and can be renewed for additional 12-month periods. Agreements may be terminated by either party upon written notice of termination at lease sixty days prior to the end of the 12-month period. The payments are generally fixed for the first year of the agreement, with increases in payments in subsequent years to be mutually agreed upon. The agreements do not include variable lease payments or free rent periods. In addition, the agreements do not provide for the underlying assets to be purchased at its fair market values at interim periods or at maturity. Each STEP agreement comes with full customer support and stand-ready advance replacement parts to maintain each system for the duration of the lease. The amount that the Company expects to derive from the STEP equipment following the end of the agreement term is dependent upon the number of agreement terms renewed. The agreements do not include a residual value guarantee.

Adoption of New Accounting Standards

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326), which together with subsequent amendments provides guidance on measuring credit losses on financial instruments. The amended guidance replaces current incurred loss impairment methodology of recognizing credit losses when a loss is probable with a methodology that reflects expected credit losses and requires a broader range of reasonable and supportable information to assess credit loss estimates. ASU 2016-13 and related amendments are effective for us on January 1, 2020, the adoption of 2016-13 did not have a material impact on the Company’s financial statements.

In November 2018, the FASB issued ASU No. 2018-18, Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606, which clarifies that certain transactions between participants in a collaborative arrangement should be accounted for under ASC 606 when the counterparty is a customer. In addition, Topic 808 precludes an entity from presenting consideration from a transaction in a collaborative arrangement as revenue from contracts with customers if the counterparty is not a customer for that transaction. This guidance will be effective for the Company beginning January 1, 2020, the adoption did not have a material impact on the Company’s financial statements.

Fair Value Measurements

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimate of assumptions that market participants would use in pricing the asset or liability.

Fair Value of Financial Instruments

The Company’s financial instruments consist of cash and cash equivalents, certificates of deposit, accounts receivable, notes and interest receivables, accounts payable, and accrued liabilities. The fair value of financial instruments, except for long-term notes receivable, approximates their carrying values, using level 3 inputs, at March 31, 2020 and December 31, 2019 due to their short maturities. The fair value of the note receivable approximates its carrying value, using level 3 inputs, at March 31, 2020 and December 31, 2019.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of 90 days or less at the time of purchase to be cash equivalents.

Certificates of Deposit and Mutual Funds

The Company invests its excess cash in certificates of deposit and money market mutual funds issued by financial institutions with high credit ratings. The certificates of deposit generally have average maturities of approximately six months and are subject to penalties for early withdrawal. The money market mutual funds are open ended and can be withdrawn at any time without penalty.

Accounts and Notes Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for losses on accounts receivable based on an analysis of historical bad debt experience, current receivables aging, and expected future write-offs, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. Accounts receivable do not bear interest and are charged off after all reasonable collection efforts have been taken. The Company maintained an allowance for doubtful accounts of \$33,354 and \$34,177 at March 31, 2020 and December 31, 2019, respectively.

Notes receivable are carried at their estimated collectible amounts. Interest income on notes receivable is recognized using the effective interest method. Notes receivable are periodically evaluated for collectability based on the credit history and the current financial condition of the counter party, and the known and inherent risks in the notes. Notes receivable are placed on nonaccrual status when they become 90 days past due and the customer has not made a payment in over 60 days. Upon suspension of the accrual of interest, interest income is subsequently recognized to the extent cash payments are received. Accrual of interest is resumed when notes are removed from non-accrual status. Notes receivable are charged against the allowance for credit losses when they are deemed to be uncollectible. The allowance for uncollectible notes receivable was \$9,340 and \$5,701 at March 31, 2020 and December 31, 2019, respectively.

Inventory

Inventory is stated at the lower of cost or net realizable value with cost being determined on the average cost method. Work in progress and finished goods inventory includes an allocation for capitalized labor and overhead. The Company routinely evaluates the carrying value of inventory for slow moving and potentially obsolete inventory and, when appropriate, will record an adjustment to reduce inventory to its estimated net realizable value. As of March 31, 2020 and December 31, 2019, inventory reserves were \$120,652.

Leases

The Company categorized leases with contractual terms longer than twelve months as either operating or finance leases. Finance leases are generally those leases that allow the Company to substantially utilize or pay for the entire asset over its estimated life. All other leases are categorized as operating leases. As of March 31, 2020, the Company had no finance leases. Certain lease contracts include obligations to pay for other services, such as maintenance. The Company elected to account for these other services as a component of the lease (i.e. the Company elected the practical expedient not to separate lease and non-lease components). Lease liabilities are recognized as the present value of the fixed lease payments using a discount rate based on the Company’s current borrowing rate at the lease commencement date, adjusted for various factors including level of collateralization and term (the “incremental borrowing rate”), unless the rate implicit in the lease is readily determinable. The current portion of lease liabilities is included in “Current liabilities” and the noncurrent portion included in “Long-term liabilities.” Lease assets are recognized based on the initial present value of the fixed lease payments, plus any direct costs from executing the lease or lease prepayments reclassified. Lease assets are presented as “Operating lease right-of-use asset” as a long-term asset. Leasehold improvements are capitalized at cost and amortized over the lesser of their expected useful life or the lease term. Costs associated with operating lease assets are recognized on a straight-line basis within operating expenses over the term of the lease.

Investments in Other Companies

The Company accounts for investments in other companies that do not have readily determinable fair value at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The Company has elected to utilize the cost minus impairment approach because the investment in TEC does not have a readily determinable fair value as of the reporting date. See Note 8. Collaboration Agreement with Related Party.

Management regularly evaluates the recoverability of its investment based on the investee company’s performance and financial position. During the three months ended March 31, 2020 and 2019, the Company did not recognize any impairment loss. Management regularly assesses the classification of its investments.

Property and Equipment

Property and equipment are carried at cost, net of depreciation. Gains or losses related to retirements or disposition of fixed assets are recognized in operations in the period incurred. Costs of normal repairs and maintenance are charged to expense as incurred, while betterments or renewals are capitalized. Depreciation commences at the time the assets are placed in service or for STEP equipment under rental agreements, when the equipment is made available for use by the customer. Depreciation is provided using the straight-line method over the estimated economic lives of the assets or for leasehold improvements, over the shorter of the estimated useful life or the remaining lease term. For STEP equipment under rental agreements, depreciation is provided using the straight-line method over the shorter of the useful life or 5-year maximum term of the agreement. Estimated useful lives are summarized as follows:

Computer equipment	3-5 years
Furniture and office equipment	5-7 years
Machinery and equipment	5-7 years
STEP equipment	5 years
Leasehold improvements	7 years

Intangible Assets

Intangible assets at March 31, 2020 and December 31, 2019 are comprised of various patents and capitalized media content costs. We compute amortization expense on the intangible assets using the straight-line method over the estimate remaining useful lives.

Cost of Products Sold

Cost of products sold represents manufacturing costs, consisting of materials, labor and overhead related to finished goods and components. Cost of products sold includes depreciation of STEP contract fixed assets. Shipping costs incurred related to product delivery are included in cost of products sold.

Advertising Costs

Costs associated with advertising are expensed as incurred. Advertising expense was \$138,236 and \$119,403 for the three months ended March 31, 2020 and 2019, respectively. These costs include domestic and international tradeshows, website, and sales promotional materials.

Research and Development Costs

Research and development costs are expensed as incurred. Research and development costs primarily include expenses, including labor, directly related to research and development support. Research and development costs were \$329,755 and \$355,641 for the three months ended March 31, 2020 and 2019, respectively.

Legal Costs

Legal costs relating to loss contingencies are expensed as incurred. See Note 10. Commitments and Contingencies.

Concentration of Credit Risk and Major Customers and Suppliers

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, certificates of deposit, accounts receivable and notes receivable.

The Company’s cash, cash equivalents and certificates of deposit are maintained with financial institutions with high credit standings and are FDIC insured deposits. The FDIC insures deposits according to the ownership category in which the funds are insured and how the accounts are titled. The standard deposit insurance coverage limit is \$250,000 per depositor, per FDIC-insured bank, per ownership category. The Company had uninsured cash and cash equivalents of \$2,615,647 and \$1,069,887 as of March 31, 2020 and December 31, 2019, respectively.

Sales are typically made on credit and the Company generally does not require collateral. Management performs ongoing credit evaluations of its customers' financial condition and maintains an allowance for estimated losses. Historically, the Company has experienced minimal charges relative to doubtful accounts.

Sales are typically made on credit and the Company generally does not require collateral. Management performs ongoing credit evaluations of its customers' financial condition and maintains an allowance for estimated losses. Historically, the Company has experienced minimal charges relative to doubtful accounts.

Management performs ongoing evaluations of the collectability of its notes receivable and maintains an allowance for estimated losses. The Company's remaining note receivable is due from one related party and is unsecured but the note can be converted to equity at the Company's discretions (See Note 2. Notes Receivable and Note 8. Collaboration Agreement with Related Party.)

Historically, the Company primarily sells its products to United States federal and state agencies. For the three months ended March 31, 2020, one federal agency comprised 17% and one state agency comprised 15% of total net sales. By comparison, for the three months ended March 31, 2019, one federal agency comprised 12% of total net sales.

As of March 31, 2020, one federal agency comprised 13%, one state agency comprised 34% and two international customers comprised 12% and 14% of total accounts receivable. By comparison, as of December 31, 2019, one federal agency comprised 30% and one international customer comprised of 20% of total accounts receivable.

Income Taxes

Deferred tax assets and liabilities are recorded based on the difference between the financial statement and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company calculates a provision for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized by identifying the temporary differences arising from the different treatment of items for tax and accounting purposes. In determining the future tax consequences of events that have been recognized in the financial statements or tax returns, judgment and interpretation of statutes are required.

In assessing realizable deferred tax assets, management assesses the likelihood that deferred tax assets will be recovered from future taxable income, and to the extent that recovery is not likely or there is insufficient operating history, a valuation allowance is established. The Company adjusts the valuation allowance in the period management determines it is more likely than not that net deferred tax assets will or will not be realized. After review of the deferred tax asset and valuation allowance in accordance with ASC 740, management determined that it is more likely than not that the Company will fully realize all of its deferred tax asset and no valuation allowance was recorded as of March 31, 2020 and December 31, 2019.

The Company did not recognize any assets or liabilities relative to uncertain tax positions at March 31, 2020 and December 31, 2019. Interest or penalties, if any, will be recognized in income tax expense. Since there are no significant unrecognized tax benefits as a result of tax positions taken, there are no accrued penalties or interest. Tax positions are positions taken in a previously filed tax return or positions expected to be taken in a future tax return that are reflected in measuring current or deferred income tax assets and liabilities reported in the financial statements.

The Company reflects tax benefits, only if it is more likely than not that the Company will be able to sustain the tax return position, based on its technical merits. If a tax benefit meets this criterion, it is measured and recognized based on the largest amount of benefit that is cumulatively greater than 50% likely to be realized. Management does not believe that there are any uncertain tax positions at March 31, 2020 and December 31, 2019.

The Company is potentially subject to tax audits for its United States federal and various state income and excise tax returns for tax years between 2015 and 2020; however, earlier years may be subject to audit under certain circumstances. Tax audits by their very nature are often complex and can require several years to complete.

Impairment of Long-Lived Assets and Intangible Assets

Long-lived assets, such as equipment, and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the asset. At March 31, 2020 and December 31, 2019, the Company concluded that there has been no indication of impairment to the carrying value of its long-lived assets. As such, no impairment has been recorded.

Stock Based Compensation

The Company measures the cost of awards of equity instruments based on the grant date fair value of the awards. The Company calculates the fair value of stock-based awards using the Black-Scholes-Merton option pricing valuation model, which incorporates various assumptions including volatility, expected term and risk-free interest rates. There were no grants of stock-based awards during the three months ended March 31, 2020 and 2019.

The expected term of the options is the estimated period of time until exercise and was determined using an average of vesting and contractual terms, as we did not have sufficient historical experience of similar awards. The risk-free interest rate is based on the implied yield available on United States Treasury zero-coupon issues with an equivalent remaining term. The Company has not paid dividends in the past and does not plan to pay any dividends in the near future. The estimated fair value of stock-based compensation awards and other options is amortized to expense on a straight-line basis over the relevant vesting period. The Company has elected to recognize forfeitures as they occur rather than estimating them at the time of grant.

New Accounting Pronouncements

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (“ASU 2019-12”). ASU 2019-12 simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. ASU 2019-12 also simplifies aspects of accounting for franchise taxes and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. ASU 2019-12 is effective for annual and interim financial statement periods beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of the adoption of ASU 2019-12 on its financial statements.

Note 2. Notes Receivable, Related Party

The Company accepted an unsecured convertible promissory note (the “Convertible Note”) from TEC, a related party (see Note 8), in the amount of \$292,138 for a portion of their minimum royalty payment due as of May 31, 2018. The note bears interest at the rate of 5% per annum and contains a provision requiring remittance of not less than 20% of the net proceeds of any private or public offering of its securities in reduction of the Convertible Note. The note has a conversion right, at the sole discretion of the Company, to convert the outstanding balance of principal and accrued interest at any time for shares of common stock of TEC. Prior to the due date, the Company may elect to convert the Convertible Note for shares of common stock in TEC at a 25% discount to the price of shares sold to the public in a public offering in connection with a go-public transaction. The issuance of common stock upon conversion shall be made without charge to the Company. No fractional shares shall be issued upon conversion and in lieu of fractional shares, TEC will pay the Company the amount of any obligation that is not converted. Any unpaid balance of principal and accrued interest becomes due and collectible on the earlier of (i) August 1, 2019 (maturity date), or (ii) if declared due and payable in the event of Default. In July 2019, the Convertible Note’s maturity date was extended to August 2020, all other promissory note terms remain unchanged. Under the terms of the Convertible Note, TEC remitted a payment of \$16,000, of which \$14,972 was applied to accrued interest and \$1,028 to principal. The Convertible Note’s principal and accrued interest due as of March 31, 2020 and December 31, 2019 was \$300,450 and \$296,811, respectively. Because the Convertible Note is from a related party and has a history of being extended, the asset may not be converted to cash within one year and is therefore classified as long-term asset. Additionally, a reserve for collectability has been recorded as of March 31, 2020 and December 31, 2019 totaling \$9,340 and \$5,701, respectively. See Note 8-Collaboration Agreement with Related Party.

Note 3. Inventory

Inventory consisted of the following as of:

	March 31, 2020	December 31, 2019
Raw materials and work in process	\$ 2,265,738	\$ 2,070,066
Reserve	(120,652)	(120,652)
Total inventory, net	<u>\$ 2,145,086</u>	<u>\$ 1,949,414</u>

The Company regularly evaluates the useful life of its spare parts inventory and as a result, the Company classified \$333,299 and \$351,236 of spare parts as Other Assets, long-term on the Balance Sheet at March 31, 2020 and December 31, 2019, respectively.

Note 4. Property and Equipment

Property and equipment consisted of the following as of:

	March 31, 2020	December 31, 2019
Computer equipment	\$ 1,115,326	\$ 1,115,326
Furniture and office equipment	223,925	223,925
Machinery and equipment	1,096,898	1,096,898
STEP equipment	678,843	481,946
Leasehold improvements	<u>334,934</u>	<u>334,934</u>
Total property and equipment	3,449,926	3,253,029
Less: Accumulated depreciation	<u>(2,312,285)</u>	<u>(2,224,831)</u>
Property and equipment, net	<u>\$ 1,137,641</u>	<u>\$ 1,028,198</u>

Depreciation expense, including STEP depreciation, was \$87,454 and \$70,312 for the three months ended March 31, 2020 and 2019, respectively.

Note 5. Intangible Asset

Intangible asset consisted of the following as of:

	March 31, 2020	December 31, 2019
Patents	\$ 160,000	\$ 160,000
Capitalized media content	89,265	66,078
Total intangible asset	249,265	226,078
Less: Accumulated amortization	(10,370)	(8,148)
Intangible asset, net	\$ 238,895	\$ 217,930

Amortization expense was \$2,222 and \$1,481 for the three months ended March 31, 2020 and 2019, respectively.

Note 6. Leases

The Company leases approximately 37,729 rentable square feet of office and warehouse space from an unaffiliated third party for our corporate office, manufacturing, assembly, warehouse and shipping facility located at 7970 South Kyrene Road, Tempe, Arizona 85284. From 2016 through March 2019, the Company leased approximately 4,529 rentable square feet of office and industrial space from an unaffiliated third party for our machine shop at 2169 East 5th St., Tempe, Arizona 85284. In April 2019, the Company relocated the machine shop from the Fifth St. location to 7910 South Kyrene Road, located within the same business complex as our main office. The Company executed a lease amendment to add an additional 5,131 rentable square feet for the machine shop and extended its existing office lease through April 2024. The Company’s lease agreements do not contain any residual value guarantees, restrictive covenants or variable lease payments. The Company has not entered into any financing leases.

In addition to base rent, the Company’s lease generally provides for additional payments for other charges, such as rental tax. The lease includes fixed rent escalations. The Company’s lease does not include an option to renew.

The Company determines if an arrangement is a lease at inception. Operating leases are recorded in operating lease right of use assets, net, operating lease liability – short term, and operating lease liability – long-term on its condensed balance sheet.

Operating lease assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As the Company’s lease does not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The incremental borrowing rate used at adoption was 4.5%. Significant judgement is required when determining the Company’s incremental borrowing rate. The Company uses the implicit rate when readily determinable. Lease expense for lease payments are recognized on a straight-line basis over the lease term.

Effective January 1, 2019, the Company obtained a right-of-use asset in exchange for a new operating lease liability in the amount of \$1,721,380 and derecognized \$46,523 deferred rent for an adjusted operating lease right-of-use asset in the net amount of \$1,674,857.

The balance sheet classification of lease assets and liabilities as of March 31, 2020 was as follows:

Balance Sheet Classification	March 31, 2020
Assets	
Operating lease right-of-use assets, January 1, 2020	\$ 1,390,873
Amortization for the three months ended March 31, 2020	(72,843)
Total operating lease right-of-use asset, March 31, 2020	<u>\$ 1,318,030</u>
Liabilities	
Current	
Operating lease liability, short-term	\$ 303,182
Non-current	
Operating lease liability, long-term	1,097,805
Total lease liabilities	<u>\$ 1,400,987</u>

Future minimum lease payments as of March 31, 2020 under non-cancelable operating leases are as follows:

2020	\$ 270,018
2021	368,060
2022	379,097
2023	390,562
2024	131,152
Total lease payments	1,538,889
Less: imputed interest	(137,902)
Operating lease liability	<u>\$ 1,400,987</u>

The balance sheet classification of lease assets and liabilities as of December 31, 2019 was as follows:

Balance Sheet Classification	December 31, 2019
Assets	
Operating lease right-of-use assets, January 1, 2019	\$ 1,674,857
Amortization for the year ended December 31, 2019	(283,984)
Total operating lease right-of-use asset, December 31, 2019	<u>\$ 1,390,873</u>
Liabilities	
Current	
Operating lease liability, short-term	\$ 297,244
Non-current	
Operating lease liability, long-term	1,174,882
Total lease liabilities	<u>\$ 1,472,126</u>

Future minimum lease payments as of December 31, 2019 under non-cancelable operating leases are as follows:

2020	\$ 357,452
2021	368,060
2022	379,097
2023	390,562
2024	131,152
Total lease payments	1,626,323
Less: imputed interest	(154,197)
Operating lease liability	<u>\$ 1,472,126</u>

Rent expense for the three months ended March 31, 2020 and 2019 was \$133,001 and \$89,139, respectively.

Note 7. Accrued Expenses

Accrued compensation and related costs consisted of the following as of:

	March 31, 2020	December 31, 2019
Salaries and wages payable	\$ 406,163	\$ 192,161
Employee benefits payable	13,939	11,259
Accrued paid time off	262,032	287,846
Profit sharing payable	52,202	120,221
Total accrued compensation and related costs	<u>\$ 734,336</u>	<u>\$ 611,487</u>

Accrued expenses and other current liabilities consisted of the following as of:

	March 31, 2020	December 31, 2019
Manufacturer's warranties	\$ 316,000	\$ 257,000
Warranties-other	44,176	74,176
Miscellaneous payable	9,916	1,193
Taxes payable	104,216	2,382
Total accrued expenses and other current liabilities	<u>\$ 474,308</u>	<u>\$ 334,751</u>

Note 8. Collaboration Agreement with Related Party

On January 16, 2015, the Company entered into a Co-Venture Agreement (the “Co-Venture Agreement”) with MR, a wholly-owned subsidiary of TEC, a related party. The Co-Venture Agreement grants TEC an exclusive non-transferrable license to use the Company’s technology and certain equipment solely for use at locations to operate the concept, as defined in the Co-Venture Agreement. Additionally, under the terms of the Co-Venture Agreement, equity representing 5% of MR’s ownership interest, on a fully-diluted basis, was issued to the Company. Throughout the duration of the Co-Venture Agreement, TEC will pay the Company a royalty based on gross revenue, as defined and subject to certain minimum royalties commencing with the first 12-month period subsequent to the respective milestone date of June 1, 2017. Under the terms of the original agreement, if the total royalty payments for locations in the United States and Canada together do not total at least the minimum royalty amount specified in the agreement, TEC may pay to VirTra the difference between the amount of total royalty payments and the minimum specified in the agreement to maintain exclusivity.

On August 16, 2017, the Company entered into the first amendment to the Co-Venture Agreement to permit TEC to sublicense the VirTra technology to third party operators of stand-alone location-based entertainment companies. TEC agreed to pay the Company royalties for any such sublicenses in an amount equal to 10% of the revenue paid to TEC in cases where TEC pays for the cost of the equipment for such location or 14% of the revenue paid to TEC in cases where it does not pay for the cost of the equipment.

On July 23, 2018, the Company entered into the second amendment to the Co-Venture Agreement with TEC to (i) confirm the minimum royalty deficiency benefit due for the royalty period ended May 31, 2018; (ii) establish payment terms for the minimum royalty deficiency benefit due, to include both cash and promissory note payment; (iii) clarify the exclusivity provisions of the Co-Venture Agreement; and (iv) amend the minimum royalty calculations to only TEC branded facilities.

On July 31, 2019, the Company executed the First Amendment to Convertible Promissory Note with TEC to extend the Convertible Note’s maturity date for one additional year to August 1, 2020 and TEC remitted a payment of 20% of its net proceeds from its recent public offering totaling \$16,000. All other terms and conditions of the Convertible Note remain unchanged.

In April 2018, MR effected a 1-for-12,000 reverse stock split, followed by a 2,000-for-1 forward stock split completed in November 2018. As a result, the Company holds, as of March 31, 2020 and December 31, 2019, 560,000 shares of TEC common stock representing approximately 4.8% of the issued and outstanding common shares of TEC. The Company recorded its investment at cost minus impairment as of March 31, 2020 and December 31, 2019, at \$840,000.

In addition, as of March 31 2020, the Company holds a warrant to purchase 25,577 shares of TEC common stock, adjusted for the 1-for-12,000 reverse stock split and the 2,000-for-1 forward stock split, at an exercise price of \$2.4436 per share, as adjusted. This warrant became exercisable on the date of grant of April 14, 2015 and expires on the tenth anniversary of the date of grant, if not earlier pursuant to the terms of the option.

Note 9. Related Party Transactions

During the three months ended March 31, 2020 and 2019, the Company redeemed 3,750 and \$0 previously awarded options reaching expiration from the Company’s COO. The redemption eliminated the stock options and resulted in a total of \$3,639 and \$0 in additional compensation expense in 2020 and 2019, respectively.

During the three months ended March 31, 2020 and 2019, the Company issued 7,500 and nil shares of common stock, \$0.0001 par value per share (the “Common Stock”), to related parties consisting of the CEO and one member of the Board of Directors for previously awarded stock options at an exercise price of \$6,300 and \$0, respectively.

Mr. Saltz, who is a member of our Board of Directors, is also Chairman of the Board of Directors of TEC, as well as a majority stockholder of TEC. The Company has entered into a Co-Venture Agreement with TEC (See Note 8. Collaboration Agreement with Related Party.) The Company owns 560,000 shares of TEC common stock representing approximately 4.8% of the issued and outstanding shares of TEC common stock. The Company recognized \$16,740 and \$39,637 for license fees (royalties) for the three months ended March 31, 2020 and 2019, respectively, pursuant to the terms of the Co-Venture Agreement. As of March 31, 2020 and December 31, 2019, the Company had accounts receivable balances outstanding from TEC of \$8,727 and \$14,323, respectively.

Mr. Richardson, who is a member of our Board of Directors, is also acting CEO of Natural Point, Inc. (“Natural Point”), a vendor of the Company. For the three months ended March 31, 2020 and 2019, the Company purchased specialized equipment from Natural Point in the amount of \$0 and \$38,352, respectively. As of March 31, 2020 and December 31, 2019, the Company had \$0 and \$34,865 accounts payable balance outstanding, respectively.

Note 10. Commitments and Contingencies

General or Threatened Litigation

From time to time, the Company is notified of threatened litigation or that a claim is being made against it. The Company evaluates contingencies on an on-going basis and has established loss provisions for matters in which losses are probable and the amount of loss can be reasonably estimated. There is no threatened litigation at this time.

Employment Agreements

On April 2, 2012, the Company entered into three-year Employment Agreements with its Chief Executive Officer and Chief Operating Officer that call for base annual salaries of \$195,000 and \$175,000, respectively, subject to cost of living adjustments, and contain automatic one-year extension provisions. These contracts have been renewed annually and have been adjusted based on the same percentage increase approved for Company-wide cost-of-living adjustments.

Profit Sharing

VirTra provides a discretionary profit-sharing program that pays out a percentage of Company profits each year as a cash bonus to eligible employees. The cash payment is typically split into two equal payments and distributed pro-rata in April and October of the following year to only active employees. For the three months ended March 31, 2020 and 2019, there was no amount credited to operations due to net loss in both respective periods. The 2020 profit-sharing estimate is revised quarterly and will be finalized after year-end financial audit.

Note 11. Stockholders' Equity

Authorized Capital

Common Stock

Authorized Shares. The Company is authorized to issue 60,000,000 shares of common stock, of which (a) 50,000,000 shares shall be Common Stock, (b) 2,500,000 shares shall be Class A common stock, par value \$0.0001 per share (the "Class A Common Stock"), and (c) 7,500,000 shares shall be Class B common stock, par value \$0.0001 per share (the "Class B Common Stock"). No Class A Common Stock or Class B Common Stock has been issued.

Rights and Preferences. Voting Rights. Except as otherwise required by the Nevada Revised Statutes or as provided by or pursuant to the provisions of the Articles of Incorporation:

(i) Each holder of Common Stock shall be entitled to one (1) vote for each share of Common Stock held of record by such holder. The holders of shares of Common Stock shall not have cumulative voting rights.

(ii) Each holder of Class A Common Stock shall be entitled to ten (10) votes for each share of Class A Common Stock held of record by such holder. The holders of shares of Class A Common Stock shall not have cumulative voting rights.

(iii) The holders of Common Stock and Class A Common Stock shall vote together as a single class on all matters on which stockholders are generally entitled to vote.

(iv) The holders of Class B Common Stock shall not be entitled to vote on any matter, except that the holders of Class B Common Stock shall be entitled to vote separately as a class with respect to amendments to the Articles of Incorporation that increase or decrease the aggregate number of authorized shares of such class, increase or decrease the par value of the shares of such class, or alter or change the powers, preferences, or special rights of the shares of such class so as to affect them adversely.

Preferred Stock

Authorized Shares. The Company is authorized to issue 2,500,000 shares of preferred stock, par value \$0.0001 per share (the “Preferred Stock”).

Rights and Preferences. The Board of Directors is authorized at any time, and from time to time, to provide for the issuance of shares of Preferred Stock in one or more series, and to determine the designations, preferences, limitations and relative or other rights of the Preferred Stock or any series thereof.

Stock Repurchase

On October 25, 2016, the Company’s Board of Directors authorized the repurchase of up to \$1 million of its common stock under Rule 10b-18 promulgated under the Securities Exchange Act of 1934, as amended. Purchases made pursuant to this authorization will be made in the open market, in privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with the Rule 10b-18. The timing, manner, price and amount of any repurchases will be determined by the Company in its discretion and will be subject to economic and market conditions, stock price, applicable legal requirements and other factors. On January 9, 2019, VirTra’s Board of Directors authorized an additional \$1 million be allocated for the repurchase of VirTra’s stock under the existing 10b-18 plan.

Treasury Stock

During the three months ended March 31, 2020 and 2019, the Company purchased nil and 68,239 additional treasury shares at an average cost of \$3.82 per shares, respectively. As of March 31, 2020, all treasury shares previously purchased had been cancelled and returned to shares authorized.

Non-qualified Stock Options

The Company has periodically issued non-qualified stock options to key employees, officers and directors under a stock option compensation plan approved by the Board of Directors in 2009. Terms of option grants are at the discretion of the Board of Directors and are generally seven years. Upon the exercise of these options, the Company expects to issue new authorized shares of its common stock. The following table summarizes all non-qualified stock options as of:

	March 31, 2020		March 31, 2019	
	Number of	Weighted	Number of	Weighted
	Stock Options	Exercise Price	Stock Options	Exercise Price
Options outstanding, beginning of year	234,167	\$ 2.47	279,167	\$ 2.34
Granted	-	-	-	-
Redeemed	(3,750)	0.84	-	-
Exercised	(7,500)	0.84	-	-
Expired / terminated	-	-	-	-
Options outstanding, end of quarter	222,917	\$ 2.55	279,167	\$ 2.34
Options exercisable, end of quarter	222,917	\$ 2.55	279,167	\$ 2.34

The Company did not have any non-vested stock options outstanding as of March 31, 2020 and December 31, 2019. The weighted average contractual term for options outstanding and exercisable at March 31, 2020 and 2019 was 7 years. The aggregate intrinsic value of the options outstanding and exercisable at March 31, 2020 and 2019 was \$111,738 and \$641,987, respectively. The total intrinsic value of options exercised during the three months ended March 31, 2020 and 2019 was \$10,575 and \$0, respectively. For the three months ended March 31, 2020 and 2019, the Company received payments related to the exercise of options in the amount of \$6,300 and \$0, respectively. The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying options and the fair value of the Company’s common stock for those stock options that have an exercise price lower than the fair value of the Company’s common stock. Options with an exercise price above the fair value of the Company’s common stock are considered to have no intrinsic value.

2017 Equity Incentive Plan

On August 23, 2017, our board approved, subject to stockholder approval at the annual meeting of stockholders on October 6, 2017, the 2017 Equity Incentive Plan (the “Equity Plan”). The Equity Plan is intended to make available incentives that will assist us to attract, retain and motivate employees, including officers, consultants and directors. We may provide these incentives through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and units and other cash-based or stock-based awards.

A total of 1,187,500 shares of our Common Stock was initially authorized and reserved for issuance under the Equity Plan. This reserve automatically increased on January 1, 2020, and will increase each subsequent anniversary through 2027, by an amount equal to the smaller of (a) 3% of the number of shares of Common Stock issued and outstanding on the immediately preceding December 31, or (b) an amount determined by the board.

Awards may be granted under the Equity Plan to our employees, including officers, directors or consultants or those of any present or future parent or subsidiary corporation or other affiliated entity. All awards will be evidenced by a written agreement between us and the holder of the award and may include any of the following: stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and performance units and cash-based awards and other stock-based awards.

At March 31, 2020 and 2019, there were no options issued under the Equity Plan.

Note 12. Subsequent Events

During March 2020, a global pandemic was declared by the World Health Organization related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). The pandemic has significantly impacted the economic conditions in the U.S., accelerating during half of March and April as federal, state and local governments react to the public health crisis, creating significant uncertainties in the U.S. economy. On March 30, 2010, the Governor for the State of Arizona issued a stay-at-home order, currently in effect until May 15, 2020. The Company carefully reviewed all rules and regulations of the government orders and determined it met the requirements of an essential business to remain open. The Company had the majority of its staff begin working remotely in mid-March, with only essential personnel continue working at the manufacturing and production facilities. This situation is rapidly changing and additional impacts to the business may arise that we are not aware of currently. While the disruption is currently expected to be temporary, there is uncertainty around the duration. The ultimate impact of the pandemic on the Company’s results of operations, financial position, liquidity or capital resources cannot be reasonably estimated at this time. To date, the COVID-19 restrictions have resulted in reduced customer shipments and customer system installations. These recent developments are expected to result in lower recognized revenue and possibly lower gross margin when they occur. To date, there have been no order cancellations only delays in when orders ship or installations occur and all delayed orders remain in backlog. A significant adverse change in the business climate could affect the value of the Company’s long-term investment in TEC, including its long-term notes receivable from TEC, currently there has not been a negative impact and any future impact cannot be reasonably estimated at this time. The Company is no longer investing in Certificates of Deposits as a precautionary measure to increase its liquid cash position and preserve financial flexibility considering uncertainty in the U.S. and global markets resulting from COVID-19.

In April 2020, the Company applied for a Paycheck Protection Program loan (the “PPP loan”) from Wells Fargo Bank (the “Lender”) in the aggregate principal amount of \$1,310,714 under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), which was enacted March 27, 2020. The Company has been notified that it has received a guarantee ID from the SBA for the PPP loan and executed a Promissory Note (the “Note”) with the Lender on May 8, 2020. The Note matures on May 8, 2022 and bears interest at a rate of 1.00% per annum, payable monthly commencing November 6, 2020, following an initial deferral period as specified under the PPP loan. The Note may be prepaid at any time prior to maturity with no prepayment penalties. Proceeds from the PPP loan were received on May 12, 2020, and are expected to be used to fund designated expenses, including certain payroll costs, group health care benefits and other permitted expenses, in accordance with the PPP loan. Under the terms of the PPP loan, up to the entire amount of principal and accrued interest may be forgiven to the extent PPP loan proceeds are used for qualifying expenses as described in the CARES Act and applicable implementing guidance issued by the U.S. Small Business Administration under the PPP loan. The Company intends to use its entire PPP loan amount for designated qualifying expenses and to apply for forgiveness in accordance with the terms of the PPP loan. No assurance can be given that the Company will obtain forgiveness of the Loan in whole or in part. With respect to any portion of the PPP loan that is not forgiven, the PPP loan will be subject to customary provisions for a loan of this type, including customary events of default relating to, among other things, payment defaults, breaches of the provisions of the Note and cross-defaults on any other loan with the Lender or other creditors. Effective May 11, 2020, the Company’s stock repurchase was suspended to follow the legal requirements for recipients of a PPP loan under the CARES Act.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited financial statements and related notes included in this Quarterly Report on Form 10-Q and the audited financial statements and notes thereto as of and for the year ended December 31, 2019 and the related Management’s Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, filed with the Securities and Exchange Commission (the “SEC”) on March 23, 2020.

Forward-Looking Statements

The information in this discussion contains forward-looking statements and information within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act, which are subject to the “safe harbor” created by those sections. The words “anticipates,” “believes,” “estimates,” “expects,” “intends,” “may,” “plans,” “projects,” “will,” “should,” “could,” “predicts,” “potential,” “continue,” “would” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements that we make. The forward-looking statements are applicable only as of the date on which they are made, and we do not assume any obligation to update any forward-looking statements. All forward-looking statements in this Annual Report on Form 10-K are made based on our current expectations, forecasts, estimates and assumptions, and involve risks, uncertainties and other factors that could cause results or events to differ materially from those expressed in the forward-looking statements. In evaluating these statements, you should specifically consider various factors, uncertainties and risks that could affect our future results or operations. These factors, uncertainties and risks may cause our actual results to differ materially from any forward-looking statement set forth in this Annual Report on Form 10-K. You should carefully consider these risk and uncertainties described and other information contained in the reports we file with or furnish to the SEC before making any investment decision with respect to our securities. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this cautionary statement.

Business Overview

VirTra, Inc. (the “Company,” “VirTra,” “we,” “us” and “our”) is a global provider of judgmental use of force training simulators, firearms training simulators and driving simulators for the law enforcement, military, educational and commercial markets. The Company’s patented technologies, software, and scenarios provide intense training for de-escalation, judgmental use-of-force, marksmanship and related training that mimics real-world situations. VirTra’s mission is to save and improve lives worldwide through practical and highly-effective virtual reality and simulator technology.

The VirTra firearms training simulator allows marksmanship and realistic scenario-based training to take place on a daily basis without the need for a shooting range, protective equipment, role players, safety officers, or a scenario-based training site. We have developed a higher standard in simulation training including capabilities such as: multi-screen, video-based scenarios, unique scenario authoring ability, superior training scenarios, the patented Threat-Fire® shoot-back system, powerful gas-powered simulated recoil weapons, and more. The simulator also allows students to receive immediate feedback from the instructor without the potential for sustaining injuries by the instructor or the students. The instructor is able to teach and re-mediate critical issues, while placing realistic stress on the students due to the realism and safe training environment created by the VirTra simulator.

VirTra’s Driver Training Simulator™ is a vehicle-based simulator, complete with next-generation graphics, motion and a variety of other features. The system is designed to provide safe, reliable environment for efficient skill transfer for all law enforcement driver training. In addition, the driving rig adds realism with vibration and motion while the modern physics-based rendering engine provides not only photo-realistic realism but critical hazards such as dust storms, rain, and sun glare. VirTra’s Driver Training Simulator™ provides an extensive and realistic range of training environments that allow for initial driver familiarization and orientation to advanced concepts, high-risk pursuits and defensive driving drills.

We also are engaged in licensing our technology to That’s Eatertainment Corp. (“TEC”), a related party and a developer and operator of a combined dining and entertainment concept centered on an indoor shooting experience.

Business Strategy

We have four main customer groups, namely, law enforcement, military, educational (includes colleges and police academies) and civilian. These are very different markets and require different sales and marketing programs as well as personnel. Our focus is to expand the market share and scope of our training simulators sales to these identified customer groups by pursuing the following key growth strategies:

- **Build Our Core Business.** Our goal is to profitably grow our market share by continuing to develop, produce and market the most effective simulators possible. Through disciplined growth in our business, we have achieved a solid balance sheet by increasing our working capital and limiting our bank debt. We plan to add staff to our experienced management team as needed to meet the expected increase in demand for our products and services as we invest in potential growth.
- **Increase Total Addressable Market.** We plan to increase the size of our total addressable market. This effort will focus on new marketing and new product and/or service offerings for the purpose of widening the number of types of customers who might consider our products or services uniquely compelling.
- **Broaden Product Offerings.** Since formation in 1993, our company has had a proud tradition of innovation in the field of simulation and virtual reality. We plan to release revolutionary new products and services as well as continue incremental improvements to existing product lines. In some cases, the company may enter a new market segment via the introduction of a new type of product or service.
- **Partners and Acquisitions.** We try to spend our time and funds wisely and not tackle tasks that can be done more efficiently with partners. For example, international distribution is often best accomplished through a local distributor or agent. We are also open to the potential of acquiring additional businesses or of being acquired ourselves, based on what is expected to be optimal for our long-term future and our stockholders.

Product Offerings

Our simulator products include the following:

- V-300® Simulator – a 300° wrap-around screen with video capability is the higher standard for simulation training

- The V-300® is the higher standard for decision-making simulation and tactical firearms training. Five screens and a 300-degree immersive training environment ensures that time in the simulator translates into real world survival skills. The system reconfigures to support 15 individual firing lanes.
- A key feature of the V-300® shows how quickly judgment decisions have to be made, and if they are not made immediately and quickly, it can lead to the possible loss of lives. This feature, among others, supports our value proposition to our customers that you cannot put a dollar value on being prepared enough for the surprises that could be around every corner and the ability to safely neutralize any life-threatening encounters.
- V-180® Simulator – a 180° screen with video capability is for smaller spaces or smaller budgets
 - The V-180® is the higher standard for decision-making simulation and tactical firearms training. Three screens and a 180-degree immersive training environment ensures that time in the simulator translates into real world survival skills.
- V-100® Simulator & V-100® MIL – a single-screen based simulator systems
 - The V-100® is the higher standard among single-screen firearms training simulators. Firearms training mode supports up to 4 individual firing lanes at one time. The optional Threat-Fire® device safely simulates enemy return fire with an electric impulse (or vibration version), reinforcing performance under pressure. We offer the industry's only upgrade path, so a V-100® firearms training and force options simulator can affordably grow into an advanced multi-screen trainer in upgraded products that we offer customers for future purchase.
 - The V-100® MIL is sold to various military commands throughout the world and can support any local language. The system is extremely compact and can even share space with a standard classroom or squeeze into almost any existing facility. If a portable firearms simulator is needed, this model offers the most compact single-screen simulator on the market today – everything organized into one standard case. The V-100® MIL is the higher standard among single-screen small arms training simulators. Military Engagement Skills mode supplies realistic scenario training taken from real world events.
 - The V-ST PRO® a highly-realistic single screen firearms shooting and skills training simulator with the ability to scale to multiple screens creating superior training environments. The system's flexibility supports a combination of marksmanship and use of force training on up to 5 screens from a single operator station. The V-ST PRO® is also capable of displaying 1 to 30 lanes of marksmanship featuring real world, accurate ballistics.
- VirTra Driver Training Simulator™ is a vehicle-based simulator, complete with next-generation graphics, motion and a variety of other features. The system is designed to provide safe, reliable environment for efficient skill transfer for all law enforcement driver training.
- Virtual Interactive Coursework Training Academy (V-VICTA)™ enables law enforcement agencies, to effectively teach, train, test and sustain departmental training requirements through nationally accredited coursework and training scenarios using our simulators.
- Subscription Training Equipment Partnership (STEP)™ is a program that allows agencies to utilize VirTra's simulator products, accessories, and V-VICTA™ interactive coursework on a subscription basis.
- V-Author® Software allows users to create, edit, and train with content specific to agency's objectives and environments. V-Author® is an easy to use application capable of almost unlimited custom scenarios, skill drills, targeting exercises and firearms course-ware proven to be highly effective for users of VirTra simulation products.
- Simulated Recoil Kits - a wide range of highly realistic and reliable simulated recoil kits/weapons
- Return Fire Device – the patented Threat-Fire® device which applies real-world stress on the trainees during simulation training.
- TASER®, OC spray and low-light training devices that interact with VirTra's simulators for training.

Recent Developments

During March 2020, a global pandemic was declared by the World Health Organization related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). The pandemic has significantly impacted the economic conditions in the U.S., accelerating during half of March and April as federal, state and local governments react to the public health crisis, creating significant uncertainties in the U.S. economy. On March 30, 2010, the Governor for the State of Arizona issued a stay-at-home order, currently in effect until May 15, 2020. The Company carefully reviewed all rules and regulations of the government orders and determined it met the requirements of an essential business to remain open. The Company had the majority of its staff begin working remotely in mid-March, with only essential personnel continue working at the manufacturing and production facilities. This situation is rapidly changing and additional impacts to the business may arise that we are not aware of currently. While the disruption is currently expected to be temporary, there is uncertainty around the duration. The ultimate impact of the pandemic on the Company’s results of operations, financial position, liquidity or capital resources cannot be reasonably estimated at this time. To date, the COVID-19 restrictions have resulted in reduced customer shipments and customer system installations. These recent developments are expected to result in lower recognized revenue and possibly lower gross margin when they occur. To date, there have been no order cancellations only delays in when orders ship or installations occur and all delayed orders remain in backlog. A significant adverse change in the business climate could affect the value of the Company’s long-term investment in TEC, including its long-term notes receivable from TEC, currently there has not been a negative impact and any future impact cannot be reasonably estimated at this time. The Company is no longer investing in Certificates of Deposits as a precautionary measure to increase its liquid cash position and preserve financial flexibility considering uncertainty in the U.S. and global markets resulting from COVID-19.

In April 2020, the Company applied for a Paycheck Protection Program loan (the “PPP loan”) from Wells Fargo Bank (the “Lender”) in the aggregate principal amount of \$1,310,714 under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), which was enacted March 27, 2020. The Company has been notified that it has received a guarantee ID from the SBA for the PPP loan and executed a Promissory Note (the “Note”) with the Lender on May 8, 2020. The Note matures on May 8, 2022 and bears interest at a rate of 1.00% per annum, payable monthly commencing November 6, 2020, following an initial deferral period as specified under the PPP loan. The Note may be prepaid at any time prior to maturity with no prepayment penalties. Proceeds from the PPP loan were received on May 12, 2020, and are expected to be used to fund designated expenses, including certain payroll costs, group health care benefits and other permitted expenses, in accordance with the PPP loan. Under the terms of the PPP loan, up to the entire amount of principal and accrued interest may be forgiven to the extent PPP loan proceeds are used for qualifying expenses as described in the CARES Act and applicable implementing guidance issued by the U.S. Small Business Administration under the PPP loan. The Company intends to use its entire PPP loan amount for designated qualifying expenses and to apply for forgiveness in accordance with the terms of the PPP loan. No assurance can be given that the Company will obtain forgiveness of the Loan in whole or in part. With respect to any portion of the PPP loan that is not forgiven, the PPP loan will be subject to customary provisions for a loan of this type, including customary events of default relating to, among other things, payment defaults, breaches of the provisions of the Note and cross-defaults on any other loan with the Lender or other creditors. Effective May 11, 2020, the Company’s stock repurchase was suspended to follow the legal requirements for recipients of a PPP loan under the CARES Act.

Results of operations for the three months ended March 31, 2020 and March 31, 2019

Revenues. Revenues were \$3,338,163 for the three months ended March 31, 2020 compared to \$3,051,338 for the same period in 2019, an increase of \$286,825, or 9%. The increase in revenues for the three months ended March 31, 2020 resulted from an increase in the number of simulators and accessories completed, delivered and revenue recognized compared to the same period in 2019.

Cost of Sales. Cost of sales were \$1,742,936 for the three months ended March 31, 2020 compared to \$1,250,869 for the same period in 2019, an increase of \$492,067, or 39%. The increase was primarily due to increased direct material, direct labor, direct travel and production supply costs related to the type and quantity of simulator systems and accessories sold. The cost of sales on a dollar basis varies from quarter-to-quarter as a result of sales volume and product mix.

Gross Profit. Gross profit was \$1,595,227 for the three months ended March 31,2020 compared to \$1,800,469 for the same period in 2019, a decrease of \$205,242, or 11%. The gross profit margin was 47.8% for the three months ended March 31, 2020 and 59.0% for the same period in 2019. The decrease in gross profit was due to increased investment in production staff to support larger volumes of sales in the future and the product mix with varying quantity of systems, accessories and services sold.

Operating Expenses. Net operating expense was \$2,107,131 for the three months ended March 31, 2020 compared to \$2,257,572 for the same period in 2019, a decrease of \$150,441, or 7%. The decrease was mainly due to reduced selling, general and administrative costs for labor, benefits, travel, and professional services expense.

Operating Loss. Operating loss was \$511,904 for the three months ended March 31, 2020 compared to an operating loss of \$457,103 for the same period in 2019, an increase of \$54,801, or 12%.

Other Income. Other income net of other expense was \$19,494 for the three months ended March 31, 2020 compared to \$37,201 for the same period in 2019, a decrease of \$17,707, or 48%, primarily from interest income.

Provision for Income Tax Benefit. Provision for income tax benefit was \$103,000 for the three months ended March 31, 2020 compared to an income tax benefit of \$107,000 for the same period in 2019, a decrease of \$4,000, or 4%. Provision (benefit) for income tax is estimated quarterly applying both federal and state tax rates.

Net Loss. Net loss was \$389,410 for the three months ended March 31, 2020 compared to net loss of \$312,902 for the same period in 2019, an increase of \$76,508, or 24%. The fluctuations in net loss relates to each respective section discussed above.

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization. Explanation and Use of Non-GAAP Financial Measures:

Earnings before interest, income taxes, depreciation and amortization and before other non-operating costs and income (“EBITDA”) and adjusted EBITDA are non-GAAP measures. Adjusted EBITDA also includes non-cash stock option expense. Other companies may calculate adjusted EBITDA differently. The Company calculates its adjusted EBITDA to eliminate the impact of certain items it does not consider to be indicative of its performance and its ongoing operations. Adjusted EBITDA is presented herein because management believes the presentation of adjusted EBITDA provides useful information to the Company’s investors regarding the Company’s financial condition and results of operations and because adjusted EBITDA is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the Company’s industry, several of which present EBITDA and a form of adjusted EBITDA when reporting their results. Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of the Company’s results as reported under accounting principles generally accepted in the United States of America (“GAAP”). Adjusted EBITDA should not be considered as an alternative for net income (loss), cash flows from operating activities and other income or cash flow statement data prepared in accordance with GAAP or as a measure of profitability or liquidity. A reconciliation of net loss to adjusted EBITDA is provided in the following table:

	Three Months Ended			
	March 31, 2020	March 31, 2019	Increase (Decrease)	% Change
Net Loss	\$ (389,410)	\$ (312,902)	\$ (76,508)	24%
Adjustments:				
Provision for income taxes	(103,000)	(107,000)	4,000	-4%
Depreciation and amortization	89,676	71,794	17,882	25%
EBITDA	<u>\$ (402,734)</u>	<u>\$ (348,108)</u>	<u>\$ (54,626)</u>	<u>16%</u>
Right of use amortization	72,843	69,989	2,854	4%
Reserve for note receivable	3,639	-	3,639	100%
Adjusted EBITDA	<u>\$ (326,252)</u>	<u>\$ (278,119)</u>	<u>\$ (48,133)</u>	<u>17%</u>

Liquidity and Capital Resources. Liquidity is the ability of an enterprise to generate adequate amounts of cash to meet its needs for cash requirements. The Company had \$3,116,893 and \$1,415,091 of cash and cash equivalents as of March 31, 2020 and December 31, 2019, respectively. The Company also held certificates of deposits with maturities of less than 12-months, which are recorded as short-term investments, totaling \$720,000 and \$1,915,000 as of March 31, 2020 and December 31, 2019, respectively. Working capital was \$6,683,091 and \$7,173,280 as of March 31, 2020 and December 31, 2019, respectively.

Net cash provided by operating activities was \$723,364 for the three months ended March 31, 2020 and net cash used in investing activities was \$900,598 for the three months ended March 31, 2019. Net cash provided by operating activities resulted primarily from decreased deferred revenue and increased accounts payable, as well as other changes in operating assets and liabilities.

Net cash provided by investing activities was \$974,916 for the three months ended March 31, 2020 and net cash used in investing activities was \$52,363 for the three months ended March 31, 2019. Investing activities in 2020 consisted of redemptions of certificates of deposits, purchase of intangible assets, purchases of property and equipment, compared to investing activities in 2019 that consisted of purchases and redemptions of certificates of deposits, purchases of intangible assets and purchases of property and equipment.

Net cash provided by financing activities was \$3,522 for the three months ended March 31, 2020 and net cash used in financing activities was \$260,842 for the three months ended March 31, 2019. Financing activities in 2020 consisted of stock options exercised and redeemed. Financing activities in 2019 consisted entirely of purchase of treasury stock.

Bookings and Backlog

The Company defines bookings as the total of newly signed contracts and purchase orders received in a defined time period. The Company received bookings totaling \$5.0 million for the three months ended March 31, 2020. The Company defines backlog as the accumulation of bookings that have not started or are uncompleted performance objectives and cannot be recognized as revenue until delivered in a future quarter. Backlog also includes extended warranty agreements and STEP agreements that are deferred revenue recognized on a straight-line basis over the life of each respective agreement. As of March 31, 2020, the Company’s backlog was \$11.3 million. Management estimates the majority of the new bookings received in the first quarter of 2020 will be converted to revenue in 2020. Management estimates the conversion of backlog based on current contract delivery dates; however, contract terms and dates are subject to modification and are routinely changed at the request of the customer. Additionally, due to the impact of COVID-19, management’s estimates will change in accordance with federal and state guidelines. To date, the COVID-19 restrictions have resulted in reduced customer shipments and customer system installations. These recent developments are expected to result in lower recognized revenue and possibly lower gross margin when they occur. To date, there have been no order cancellations, only delays in when orders ship or installations occur and all delayed orders remain in backlog.

Cash Requirements

Our management believes that our current capital resources will be adequate to continue operating the company and maintaining our current business strategy for more than 12 months from the filing of this Quarterly Report. We are, however, open to raising additional funds from the capital markets, at a fair valuation, to expand our product and services offered, to enhance our sales and marketing efforts and effectiveness, and to aggressively take advantage of market opportunities. There can be no assurance, however, that additional financing will be available to us when needed or, if available, that it can be obtained on commercially reasonable terms. If we are not able to obtain the additional financing on a timely basis, if and when it is needed, we will be forced to scale down our plans for expanded marketing and sales efforts.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based on our unaudited condensed financial statements, which have been prepared in accordance with GAAP. The preparation of our unaudited condensed financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to areas that require a significant level of judgment or are otherwise subject to an inherent degree of uncertainty. Significant accounting estimates in these financial statements include valuation assumptions for share-based payments, allowance for doubtful accounts and notes receivable, inventory reserves, accrual for warranty reserves, the carrying value of long-lived assets, income tax valuation allowances, the carrying value of cost basis investments, and the allocation of the transaction price to the performance obligations in our contracts with customers. We base our estimates on historical experience, our observance of trends in particular areas, and information or valuations and various other assumptions that we believe to be reasonable under the circumstances and which form the basis for making judgments about the carrying value of assets and liabilities that may not be readily apparent from other sources. Actual amounts could differ significantly from amounts previously estimated. For a discussion of our critical accounting policies, refer to Part I, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2019. Management believes that there have been no changes in our critical accounting policies during the three months ended March 31, 2020.

Recent Accounting Pronouncements

See Note 1 to our condensed financial statements, included in Part I, Item 1., Financial Information of this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

As of March 31, 2020, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term “off-balance sheet arrangement” generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have any obligation arising under a guarantee contract, derivative instrument or variable interest or a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not required for smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of disclosure controls and procedures

We maintain “disclosure controls and procedures,” as that term is defined in Rule 13a-15(e), promulgated by the SEC pursuant to the Exchange Act. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our company’s reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. Our management, with the participation of our principal executive officer and principal financial officer, evaluated our company’s disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer concluded that as of March 31, 2020, our disclosure controls and procedures were not effective. The ineffectiveness of our disclosure controls and procedures was due to material weaknesses, which we identified in our report on internal control over financial reporting contained in our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on March 23, 2020.

Change in internal control over financial reporting

There has been no change in our internal control over financial reporting that occurred during the quarterly period ended March 31, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within any company have been detected.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 10 to our unaudited condensed financial statements, included in Part I, Item 1., Financial Information of this Quarterly Report on Form 10-Q, which information is incorporated herein by reference.

ITEM 1A. RISK FACTORS

Not required for smaller reporting companies.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

- (a) In April 2020, the Company applied for a Paycheck Protection Program loan (the “PPP loan”) from Wells Fargo Bank (the “Lender”) in the aggregate principal amount of \$1,310,714 under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), which was enacted March 27, 2020. The Company has been notified that it has received a guarantee ID from the SBA for the PPP loan and executed a Promissory Note (the “Note”) with the Lender on May 8, 2020. The Note matures on May 8, 2022 and bears interest at a rate of 1.00% per annum, payable monthly commencing November 6, 2020, following an initial deferral period as specified under the PPP loan. The Note may be prepaid at any time prior to maturity with no prepayment penalties. Proceeds from the PPP loan have been received on May 12, 2020, and are expected to be used to fund designated expenses, including certain payroll costs, group health care benefits and other permitted expenses, in accordance with the PPP loan. Under the terms of the PPP loan, up to the entire amount of principal and accrued interest may be forgiven to the extent PPP loan proceeds are used for qualifying expenses as described in the CARES Act and applicable implementing guidance issued by the U.S. Small Business Administration under the PPP loan. The Company intends to use its entire PPP loan amount for designated qualifying expenses and to apply for forgiveness in accordance with the terms of the PPP loan. No assurance can be given that the Company will obtain forgiveness of the Loan in whole or in part. With respect to any portion of the PPP loan that is not forgiven, the PPP loan will be subject to customary provisions for a loan of this type, including customary events of default relating to, among other things, payment defaults, breaches of the provisions of the Note and cross-defaults on any other loan with the Lender or other creditors. Effective May 11, 2020, the Company’s stock repurchase was suspended to follow the legal requirements for recipients of a PPP loan under the CARES Act.
- (b) There have been no material changes to the procedures by which security holders may recommend nominees to the Company’s Board of Directors since the filing with the SEC of the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description
10.1	<u>Paycheck Protection Program Promissory Note and Agreement dated May 8, 2020 by and between the registrant and Wells Fargo Bank, N.A.</u>
31.1	<u>Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification of the Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VIRTRA, INC.

Date: May 12, 2020

By: /s/ Robert D. Ferris
Robert D. Ferris
Chief Executive Officer and President
(principal executive officer)

By: /s/ Judy A. Henry
Judy A. Henry,
Chief Financial Officer
(principal financial and principal accounting officer)

Exhibit 10.1

DocuSign Envelope ID: 5836B0F9-4DAC-4D2A-A5DD-21FD88CF4791

THIS IS A COPY
This is a copy view of the Authoritative Copy held
by the designated custodian



Paycheck Protection Program Promissory Note and Agreement

Wells Fargo SBA Lending

Borrower Names:
Virtra Inc

Important Notice: This Instrument Contains A Confession Of Judgment Provision Which Constitutes A Waiver Of Important Rights You May Have As A Debtor And Allows The Creditor To Obtain A Judgment Against You Without Any Further Notice. Venue Will Be In The City Of Richmond.

Paycheck Protection Program Promissory Note and Agreement

1. Parties To Agreement And Acceptance

This Wells Fargo Paycheck Protection Promissory Note and Agreement ("Agreement") governs the Wells Fargo Paycheck Protection Loan ("Loan") that Wells Fargo Bank, N.A. ("we" or "Lender") is providing to you (if a sole proprietor) or your business organization, Borrower(s) listed above, (such a sole proprietor or business organization are referred to in this Agreement as "Customer", "you", and "your" or "Borrower") and your designated representatives. The Loan is established under the terms and conditions of the SBA program of the United States Small Business Administration ("SBA") and the USA CARES Act (2020)(H.R. 748)(15 U.S.C 636 *et seq.*)(the "Act") and the availability of the Loan is expressly contingent on funds being available from the SBA under the Act to guaranty this Loan. You agree to be bound by and comply with each and every following term and condition of this Agreement. Lender agrees, based on the terms and conditions and relying upon the representations and warranties set forth in this Agreement, to make available to Borrower the Loan as more fully described herein.

2. Promise to Pay

Borrower promises to pay to Lender, or order, the principal amount of **\$1,320,714** , together with interest on the outstanding principal balance. Borrower will pay Lender at Lender's address shown in this Agreement or at such other place as Lender may designate in writing.

3. Interest

Interest will accrue on the outstanding principal balance at a fixed rate of 1.00%. Interest will be calculated as described in the Interest Accrual Basis paragraph below.

4. Interest Accrual Basis

Interest shall be computed on an actual/365 simple interest basis; that is, by multiplying the applicable interest rate, times the outstanding principal balance, times the actual number of days the principal is outstanding and dividing by a year of 365 days.

5. Repayment

Payments shall be due and payable monthly in the amount of **\$55,603.74** commencing **11/06/2020** and continuing on Day **08** of each month thereafter until maturity. The Loan shall mature two (2) years from the date of this Agreement **05/08/2022**, at which time all unpaid principal, accrued interest, and any other unpaid amounts shall be due and payable in full. Unless otherwise agreed, all sums received from Borrower may be applied to interest, fees, principal, or any other amounts due to Lender in any order at Lender's sole discretion.

As discussed further herein, the Borrower may apply for the loan to be forgiven in whole or in part.

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If any portion of the principal and/or interest payments are forgiven by the Lender, upon forgiveness, the remaining balance of the loan will be reamortized over the remaining term with the entire principal balance remaining unpaid, along with all accrued and unpaid interest, due and payable upon the Maturity Date.

6. Permissible Use

The Account will be used for only for purposes authorized by the Act, specifically the Paycheck Protection Program contained within such Act. In no event shall the Loan be used for any transaction that is illegal under any applicable law. You represent that you (if a sole proprietor) and your business organization are not a Money Service Business as defined by federal law, or have identified yourself to Lender as such a business and have complied with all applicable laws, rules and regulations governing such businesses.

7. Forgiveness

The Borrower will not be responsible for any loan payment if Borrower provides to Lender, in its sole and absolute discretion, sufficient documentation that (i) the Borrower used all of the loan proceeds for forgivable purposes described below and (ii) employee and compensation levels are maintained. The actual amount of loan forgiveness will depend, in part, on the total amount of payroll costs, payments of interest on mortgage obligations incurred before February 15, 2020, rent payments on leases dated before February 15, 2020, and utility payments under service agreements dated before February 15, 2020, over the eight-week period following the date of the loan. Not more than 25 percent of the loan forgiveness amount may be attributable to non-payroll costs.

The following is an exhaustive list of forgivable purposes:

- 1) payroll costs (as defined in the Act and in 2.f.);
- 2) costs related to the continuation of group health care benefits during periods of paid sick, medical, or family leave, and insurance premiums;
- 3) mortgage interest payments (but not mortgage prepayments or principal payments);
- 4) rent payments;
- 5) utility payments;
- 6) interest payments on any other debt obligations that were incurred before February 15, 2020, and/or
- 7) refinancing an SBA EIDL loan made between January 31, 2020 and April 3, 2020.

8. Late Charges

For each payment of principal, interest, and/or fees which has not been paid in full within fifteen days after its date due, Borrower will pay to Lender a late charge of \$15.00 or five percent (5%) of the amount due, whichever is greater. Borrower acknowledges and agrees that the amount of this late fee is reasonable with respect to this Loan, taking into account Lender's expectation of timely receipt of payments with regard to the favorable pricing of this Loan, and the operational, administrative and regulatory burdens flowing from late payments and delinquencies. To the extent this late fee or any other fee or charge set forth in this Agreement may be prohibited or exceed any limit provided by any present or future applicable law, such fee or charge shall be reduced to the maximum amount allowed.

9. Prepayment

Borrower may prepay principal of the Loan at any time, in any amount, without penalty.

10. Default

The following constitute defaults under this Agreement:

- 1) a payment is not made when it is due;
- 2) the terms of this Agreement are breached in any way;
- 3) Customer defaults under the terms of any other obligation to Lender;
- 4) a bankruptcy petition is filed by or against Customer or any of Customer's owners;
- 5) a significant change occurs in the ownership or organizational structure of Customer or in the type or volume of such Customer's business or the death of a Customer;
- 6) Customer becomes insolvent or is dissolved, or Lender otherwise believes in good faith that the prospect of payment and/or performance under this Agreement;
- 7) payments to the Loan are returned or reversed for any reason;
- 8) Customer fails to submit required information the Lender deems necessary.

11. Remedies

In the event of any Default or failure to meet any condition under the preceding paragraphs, or upon any termination of a Loan, Lender may, at its option and without prior notification:

- 1) close any and all Loans to all use, as well as any other accounts for which the Customer is liable to Lender;
- 2) accelerate payment of the full balance on any or all Loans as well as any or all other accounts for which the Customer is liable to Lender, and thereby require immediate payment of the full balance, including, without limitation any Late Charges or any other charges or fees of any kind due Lender.
- 3) Lender may exercise its right of set-off against any obligation Lender owes to you, including a set-off to the extent permitted by law against any deposit account(s) you have with Lender.

12. Borrower hereby certifies and represents that:

- 1) Borrower is eligible to receive a loan under the rules in effect at the time the loan is made that have been issued by the Small Business Administration (SBA) implementing the Paycheck Protection Program under Division A, Title I of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) (the Paycheck Protection Program Rule).
- 2) Borrower does not operate an ineligible business under the CARES Act and any implementing rules, 13 CFR 120.110 and described further in SBA's Standard Operating Procedure 50 10, Subpart B, Chapter 2. Borrower further certifies that Borrower is not engaged in any activity that is illegal under federal, state or local law.
- 3) Borrower (1) is an independent contractor, eligible self-employed individual, or sole proprietor or (2) employs no more than the greater of 500 or employees or, if applicable, the size standard in number of employees established by the SBA in 13 C.F.R. 121.201 for the Applicant's industry.
- 4) The Borrower or any owner of Borrower is not presently suspended, debarred, proposed for debarment, declared ineligible, voluntarily excluded from participation in this transaction by any Federal department or agency, or presently involved in any bankruptcy.
- 5) The Borrower, any owner of Borrower or any business owned or controlled by either of them, has not obtained a direct or guaranteed loan from SBA or any other Federal agency that is currently delinquent or has defaulted within the last seven (7) years and caused a loss to the government.
- 6) The Borrower (if an individual) or any individual owning 20% or more of the equity of the Borrower is not (a) subject to an indictment, criminal information, arraignment, or other means by which formal criminal charges are brought in any jurisdiction, (b) presently incarcerated, or (c) on probation or parole.
- 7) Within the last five (5) years, the Borrower (if an individual) or any individual owning 20% or more of the equity of the Borrower has not (a) been convicted of a felony; (b) pleaded guilty to a felony; (c) pleaded nolo contendere to a felony; (d) been placed on pretrial diversion for a felony; or (e) been placed on any form of parole or probation (including probation before judgment) for felony charges.
- 8) The Borrower is not a household employer (e.g. an individual who employs household employees such as nannies or housekeepers).
- 9) All documents submitted to Lender, including without limitation, payroll processor records, payroll tax filings, Form 1099-MISC, or bank records, are true and correct.
- 10) The United States is the principal place of residence for all employees of the Borrower included in the Borrower's payroll calculation submitted to Lender.
- 11) If the Borrower operates a franchise business, such franchise is listed on the SBA Franchise Directory.
- 12) Any loan received by the Borrower under Section 7(b)(2) of the Small Business Act between January 31, 2020 and April 3, 2020 was for a purpose other than paying payroll costs and other allowable uses loans under the Paycheck Protection Program Rule.
- 13) The Borrower was in operation on February 15, 2020 and had employees for whom it paid salaries and payroll taxes or paid independent contractors, as reported on Form(s) 1099-MISC.
- 14) Current economic uncertainty makes this Loan request necessary to support the ongoing operations of the Borrower.
- 15) The funds will be used to retain workers and maintain payroll or make mortgage interest payments, lease payments, and utility payments, as specified under the Paycheck Protection Program Rule; I understand that if the funds are knowingly used for unauthorized purposes, the federal government may hold me legally liable, such as for charges of fraud.
- 16) During the period beginning on February 15, 2020 and ending on December 31, 2020, the Borrower has not and will not receive another loan under the Paycheck Protection Program.
- 17) Borrower certifies that the information provided in the application and the information provided in all supporting documents and forms is true and accurate in all material respects. Borrower understands that knowingly making a false statement to obtain a guaranteed loan from SBA is punishable under the law, including under 18 USC 1001 and 3571 by imprisonment of not more than five years and/or a fine of up to \$250,000; under 15 USC 645 by imprisonment of not more than two years and/or a fine of not more than \$5,000; and, if submitted to a federally insured institution, under 18 USC 1014 by imprisonment of not more than thirty years and/or a fine of not more than \$1,000,000.
- 18) Borrower acknowledges that the lender will confirm the eligible loan amount using required documents submitted. Borrower understands, acknowledges and agrees that the Lender can share any tax information that it has provided with SBA's authorized representatives, including authorized representatives of the SBA Office of Inspector General, for the purpose of compliance with SBA Loan Program Requirements and all SBA reviews.
- 19) The undersigned officer of the Borrower is duly authorized to execute and deliver this Agreement, the Note and all other documents executed in connection therewith, and the performance by the Borrower of the transactions herein contemplated are and will be within its powers, have been duly authorized by all necessary entity action, and are not and will not be in contravention of any order of court or other agency of government, of

law or, if applicable, its organizing or governing documents, or any indenture, agreement or undertaking to which it is a party or by which its property is bound, or be in conflict with, result in a breach of or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or undertaking or result in the imposition of any lien, charge or encumbrance of any nature on any of the properties of such Borrower.

13. Indemnification

Borrower agrees to indemnify Lender and hereby holds Lender harmless against any and all claims, actions, suits, proceedings, costs, expenses, brokerage or other fees, including reasonable attorneys' fees, losses, damages and liabilities of any kind, including in tort, penalties and interest, which Lender may incur in any manner other than Lender's own gross negligence or willful misconduct, by reason of any matter relating, directly or indirectly, to the Loan and the Loan Documents, including, but in no way limited to, without limitation, the calculation of the maximum Loan amount or the amount of the Loan that qualifies as eligible for forgiveness.

14. Attorney's fees and costs

Customer agrees to pay Lenders attorney's fees and costs: 1) related to this Agreement; or 2) related to enforcing this Agreement against customer or customer's owners (if applicable); or 3) related to collecting any amounts due under this Agreement from Customer or Customer's owners (if applicable).

15. Collateral Exclusions

No deed of trust, mortgage, security deed, or similar real estate collateral agreement ("Lien Document"), nor any personal property security agreement other than this Agreement or any modification of same ("Security Agreement"), shall secure this Note unless such Lien Document or Security Agreement specifically describes this Agreement as a part of the indebtedness secured thereby. As used herein, this "Agreement" means either (i) this Agreement or (ii) a promissory note, Confirmation Letter or other evidence of indebtedness which has been modified, renewed or extended in whole or in part by this Agreement. This exclusion shall apply notwithstanding the fact that such Lien Document or Security Agreement may appear to secure this Agreement by virtue of a cross-collateralization provision or other provisions expanding the scope of the secured obligations.

16. Supplemental provisions concerning cross-collateralization and personal property

Notwithstanding anything to the contrary in any Lien Document which specifically describes this Agreement as a part of the indebtedness secured thereby, (1) any cross-collateralization provision and any other provisions contained therein expanding the scope of the secured obligations beyond the Secured Debt, any related "swap agreements" (as defined in 11 U.S.C. Section 101), and obligations to protect and preserve collateral, shall have no force or effect, and (2) any lien or security interest granted in such Lien Document upon personal property shall not include any items of personal property located in a Covered Structure unless all applicable requirements of the Act, if any, have been satisfied with respect to such items of personal property. As used herein, "Secured Debt" means this Agreement and any other notes or agreements evidencing indebtedness specifically described or listed in and expressly secured by any such Lien Document(s) and modifications, renewals, and extensions of such notes and agreements, and "Covered Structure" means a building or mobile home as defined in the National Flood Insurance Act (as amended) and its implementing regulations (collectively, the "Act") located in an area designated by the Administrator of the Federal Emergency Management Agency as a special flood hazard area which requires flood insurance pursuant to the terms of the Act. Additionally, notwithstanding anything to the contrary in the Agreement, personal property security interests granted pursuant to the terms of the Agreement shall not secure any obligations beyond this Agreement any related "swap agreements" (as defined in 11 U.S.C. Section 101), and obligations to protect and preserve collateral. This exclusion shall apply notwithstanding the fact that the Agreement may appear to secure such other obligations by virtue of the definition of Indebtedness contained in the Agreement.

17. Money Laundering, Sanctions, Corrupt Practices, and Compliance with all laws

Borrower represents, warrants and agrees that Borrower, all Borrowers, and any of their parents, affiliates, subsidiaries, officers, directors, or agents (the "Borrowing Group") (1) are not now and will not become a Sanctioned Target (as defined below) of any trade, economic, financial, sectoral or secondary sanctions, restrictions, embargoes or anti-terrorism laws promulgated by the United Nations or the governments of the United States, the United Kingdom, the European Union, or any other governmental authority with jurisdiction over any of the Borrowing Group (collectively, "Sanctions"), and are not owned or controlled by, or acting or purporting to act for or on behalf of, directly or indirectly, a Sanctioned Target, (2) now comply and will at all times comply with, and have instituted and maintain, policies, procedures and controls reasonably designed to assure compliance with, the requirements of all laws, rules, regulations and orders of any governmental authority with jurisdiction over any of the Borrowing Group, or that are otherwise applicable to the Borrowing Group, including, without limitation, (a) all Sanctions, (b) all laws and regulations that relate to money laundering, any predicate crime to money laundering, or any financial record keeping and reporting requirements related thereto ("Anti-Money Laundering Laws"), and (c) the U.S. Foreign Corrupt Practices Act of 1977, as amended, the U.K. Bribery Act of 2010, as amended, and any other anti-bribery or anti-corruption laws and regulations in any jurisdiction in which the Borrowing Group is located or doing business ("Anti-Corruption Laws"), (3) to the best of Borrower's knowledge, after due care and inquiry, are not under investigation for an alleged violation of Sanctions, Anti-Money Laundering Laws or Anti-Corruption Laws by a governmental authority that enforces such Sanctions, Anti-Money Laundering Laws or Anti-Corruption Laws, (4) will not at any time directly or indirectly use any proceeds of any credit extended by Lender to fund, finance or facilitate any activities, businesses or transactions that are prohibited by Sanctions, Anti-Money Laundering Laws or Anti-Corruption

Laws, or that would be prohibited by the same if conducted by Lender or any other party hereto, and (5) shall not fund any repayment of the credit with proceeds, or provide as collateral any property, that is directly or indirectly derived from any transaction or activity that is prohibited by Sanctions, Anti-Money Laundering Laws or Anti-Corruption Laws, or that could otherwise cause the Lender or any other party to this agreement to be in violation of Sanctions, Anti-Money Laundering Laws or Anti-Corruption Laws. Borrower shall notify Lender in writing not more than one (1) business day after first becoming aware of any breach of the foregoing paragraph. "Sanctioned Target" means any target of Sanctions, including (1) persons on any list of targets identified or designated pursuant to any Sanctions, (2) persons, countries, or territories that are the target of any territorial or country-based Sanctions program, (3) persons that are a target of Sanctions due to their ownership or control by any Sanctioned Target(s), or (4) persons otherwise a target of Sanctions, including vessels and aircraft, that are designated under any Sanctions program.

18. Laws governing this agreement

The laws of the state of South Dakota shall govern this Agreement. If any part of this Agreement cannot be enforced, this fact will not affect the rest of this Agreement. Lender may delay or forego enforcing any of its rights or remedies under this Agreement without losing them. Notwithstanding anything to the contrary, this Agreement shall not require or permit the payment, taking, reserving, receiving, collection, or charging of any sums constituting interest that exceed any maximum amount of interest permitted by applicable law. Any such excess interest shall be credited against the then unpaid principal balance or refunded to Customer. Without limiting the foregoing, all calculations to determine whether interest exceeds the maximum amount shall be made by amortizing, pro-rating, allocating, and spreading such sums over the full term of the loan.

19. Limitation on Lawsuits

Customer agrees that any lawsuit based upon any cause of action which Customer may have against Lender must be filed within one year from the date that it arises or Customer will be barred from filing the lawsuit. This limitation is intended to include tort, contract, and all other causes of action for which Customer and Lender may lawfully contract to set limitations for bringing suit.

20. Credit Evaluation

Credit reports and re-evaluation of credit: You authorize Lender to obtain business and personal credit bureau reports in the name of the Customer or its owners, at any time. You agree to submit to Lender current financial information in the name of the Customer and to submit to Lender, current financial information in its name, and the name of its owners at any time upon request. Such information shall be used for the purpose of evaluating or re-evaluating Customer's or its owners' creditworthiness. You also authorize Lender to use such information and to share it with its affiliates in order to determine whether you are qualified for other products and services offered by Lender and its affiliates. Lender may report its credit experience with Customer, its owners', and Customer's Loan(s) to third parties. Customer agrees that Lender may release information about Customer, its owners', the Loan Borrower(s)' and/or Customer's Loan to Lender affiliates.

Important Notice about Credit Reporting: Lender may report information about your Loan(s) to credit bureaus and/or consumer reporting agencies in your name or the name of your business organization. Late payments, missed payments, or other defaults on your Loan(s) may be reflected in your personal credit report or your business organization's credit report(s).

21. ARBITRATION

- 1) **Binding Arbitration:** The parties hereto agree, upon demand by any party, to submit any dispute to binding arbitration in accordance with the terms of this Paragraph 19 (the "Arbitration Program"). Arbitration may be demanded before the institution of a judicial proceeding, or during a judicial proceeding, but not more than 60 days after service of a complaint, third party complaint, cross-claim, or any answer thereto, or any amendment to any of such pleadings. A "Dispute" shall include any dispute, claim, or controversy of any kind, in contract or in tort, legal or equitable, now existing or hereafter arising, relating in any way to any aspect of this agreement, or any other agreement, document or instrument to which this Arbitration Program is attached or in which it appears or is referenced, or any related agreements, documents or instruments or any renewal, extension, modification, or refinancing of any indebtedness or obligation relating to the foregoing, including without limitation, their negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default, or termination. This provision is a material inducement for the parties entering into the transactions relating to this Agreement, DISPUTES SUBMITTED TO ARBITRATION ARE NOT RESOLVED IN COURT BY A JUDGE OR JURY. TO THE EXTENT ALLOWED BY APPLICABLE LAW, THE PARTIES IRREVOCABLY AND VOLUNTARILY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY WITH RESPECT TO ANY DISPUTE ARBITRATED PURSUANT TO THIS ARBITRATION PROGRAM.
- 2) **Governing Rules:** Any arbitration proceeding will: (i) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (ii) be conducted by the American Arbitration Association ("AAA"), or such other administrator as the parties shall mutually agree upon, in accordance with the AAA's commercial dispute resolution procedures, unless the claim or counterclaim is at least \$1,000,000.00 exclusive of claimed interest, arbitration fees, and costs in which case the arbitration shall be conducted in accordance with the AAA's optional procedures for large, complex commercial disputes (the commercial dispute

resolution procedures or the optional procedures for large complex commercial disputes to be referred to herein, as applicable, as the "Rules"). If there is any inconsistency between the terms hereof and the Rules, the terms and procedures set forth herein shall control. Arbitration proceedings hereunder shall be conducted at a location mutually agreeable to the parties, or if they cannot agree, then at a location selected by the AAA in the state of South Dakota. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any Dispute. The arbitrator shall award all costs and expenses of the arbitration proceeding. Nothing contained herein shall be deemed to be a waiver by any party that is a lender of the protections afforded to it under 12 U.S.C. §91 or any similar applicable state law.

- 3) **No Waiver of Provisional Remedies, Self-Help, and Foreclosure:** The arbitration requirement does not limit the right of any party to: (i) foreclose against any real or personal property collateral; (ii) exercising self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession; or (iii) obtain provisional or ancillary remedies such as replevin, injunctive relief, attachment, or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief, including those arising from the exercise of the actions detailed in section (i), (ii), and (iii) of this paragraph.
- 4) **Arbitrator Qualifications and Powers:** Any arbitration proceeding in which the amount in controversy is \$5,000,000.00 or less will be decided by a single arbitrator selected according to the Rules, and who shall not render an award of greater than \$5,000,000.00. Any Dispute in which the amount in controversy exceeds \$5,000,000.00 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations. Every arbitrator must be a neutral practicing attorney or a retired member of the state or federal judiciary, in either case with a minimum of ten years' experience in the substantive law applicable to the subject matter of the Dispute. The arbitrator will determine whether or not an issue is arbitrable and will give effect to the statutes of limitation in determining any claim. In any arbitration proceeding the arbitrator will decide (by documents only or with a hearing at the arbitrator's discretion) any pre-hearing motions which are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all Disputes in accordance with the applicable substantive law and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the applicable state rules of civil procedure, or other applicable law. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.
- 5) **Discovery:** In any arbitration proceeding discovery will be permitted in accordance with the Rules. All discovery shall be expressly limited to matters directly relevant to the Dispute being arbitrated and must be completed no later than 20 days before the hearing date. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.
- 6) **Class Proceedings and Consolidations:** No party shall be entitled to join or consolidate disputes by or against others in any arbitration, except parties to this Agreement, or to include in any arbitration any dispute as a representative or member of a class, or to act in any arbitration in the interest of the general public or in a private attorney general capacity.
- 7) **Miscellaneous:** To the maximum extent practicable, the AAA, the arbitrators, and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the Dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business or by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a Dispute, the arbitration provision most directly related to the documents between the parties or the subject matter of the Dispute shall control. This arbitration provision shall survive the repayment of the obligations that are the subject of this agreement and the termination, amendment, or expiration of any of the documents or any relationship between the parties.
- 8) **SBA Arbitration:** The parties specifically agree that the provisions of the Arbitration Program set forth above are not applicable to any dispute between any party and the U.S. Small Business Administration (the "SBA"), including but not limited to, any dispute with the SBA after purchase of the loan by the SBA.

22. **SMALL BUSINESS ADMINISTRATION (SBA)**

When SBA is the holder, this Agreement will be interpreted and enforced under federal law, including SBA regulations. Lender or SBA may use state or local procedures for filing papers, recording documents, giving notice, foreclosing liens, and other purposes. By using such procedures, SBA does not waive any federal immunity from state or local control, penalty, tax or liability. As to this Agreement, Borrower may not claim or assert against SBA any local or state law to deny any obligation, defeat any claim of SBA, or preempt federal law.

24. **FACSIMILE AND COUNTERPARTS**

This document may be signed in any number of separate copies, each of which shall be effective as an original, but all of which taken together shall constitute a single document. This Agreement shall be valid, binding, and enforceable against a party when executed by an authorized individual on behalf of the party by means of (i) an electronic signature that complies with the federal Electronic Signatures in Global and National Commerce Act, state enactments of the Uniform Electronic Transactions Act, or any other relevant and applicable electronic signatures law; (ii) an original manual signature; or (iii) a faxed, scanned, or photocopied manual signature. Each electronic signature or faxed, scanned, or photocopied manual signature shall for all purposes have the same validity, legal effect, and admissibility in evidence as an original manual signature.

25. **TELEPHONE MONITORING AND CONTACTING YOU**

The Lender may monitor or record calls. You agree, in order for Lender to service the Loan or to collect any amounts you may owe, that Lender may from time to time make calls and send text messages to you, using prerecorded/artificial voice messages and/or through the use of an automatic dialing device, at any telephone number associated with your account, including mobile telephone numbers that could result in charges to you. You also expressly consent to Lender sending email messages regarding your Loan to your email address.

26. **FINAL AGREEMENT**

The persons and entities signing below ("Party", or collectively, the "Parties") acknowledge and agree that each Party's execution of this Agreement constitutes acknowledgment that such Party (i) agrees that there are no oral agreements relating to this Agreement, (ii) agrees that agreements will be binding upon Lender only if in writing and signed by Lender, and (iii) acknowledges receipt of the following Notice, and to the fullest extent allowed by law, agrees to be bound by the terms of this Agreement and this Notice.

Notice: This Document And All Other Documents Relating To This Loan Constitute A Written Loan Agreement Which Represents The Final Agreement Between The Parties And May Not Be Contradicted By Evidence Of Prior, Contemporaneous, Or Subsequent Oral Agreements Of The Parties. There Are No Unwritten Oral Agreements Between The Parties Relating To This Loan.

27. **TIME IS OF THE ESSENCE.** Time is of the essence in the performance of the Agreement.

28. **JOINT AND SEVERAL LIABILITY.** The obligations of each Borrower shall be joint and several.

29. **STATE SPECIFIC PROVISIONS.**

If Borrower is resident of Delaware, Pennsylvania, or Maryland:

Confession Of Judgment. The Undersigned Hereby Irrevocably Authorizes And Empowers Any Attorney-At-Law To Appear In Any Court Of Record And To Confess Judgment Against The Undersigned For The Unpaid Amount Of This Note As Evidenced By An Affidavit Signed By An Officer Of Lender Setting Forth The Amount Then Due, Together With All Indebtedness Provided For Therein (With Or Without Acceleration Of Maturity), Plus Attorneys' Fees Of Ten Percent (10%) Of The Total Indebtedness Or Five Thousand Dollars (\$5,000.00), Whichever Is The Larger Amount For The Collection, Which Borrower And Lender Agree Is Reasonable, Plus Costs Of Suit, And To Release All Errors, And Waive All Rights Of Appeal. The Undersigned Expressly Releases All Errors, Waives All Stay Of Execution, Rights Of Inquisition And Extension Upon Any Levy Upon Real Estate And All Exemption Of Property From Levy And Sale Upon Any Execution Hereon; And The Undersigned Expressly Agrees To Condemnation And Expressly Relinquishes All Rights To Benefits Or Exemptions Under Any And All Exemption Laws Now In Force Or Which May Hereafter Be Enacted. No Single Exercise Of The Foregoing Warrant And Power To Confess Judgment Will Be Deemed To Exhaust The Power, Whether Or Not Any Such Exercise Shall Be Held By Any Court To Be Invalid, Voidable Or Void; But The Power Will Continue Undiminished And May Be Exercised From Time To Time As Lender May Elect Until All Amounts Owing On This Note Have Been Paid In Full. The Undersigned Hereby Waives And Releases Any And All Claims Or Causes Of Action Which The Undersigned Might Have Against Any Attorney Acting Under The Terms Of Authority Which The Undersigned Has Granted Herein Arising Out Of Or Connected With The Confession Of Judgment Hereunder.

If Borrower is resident of Ohio:

Confession Of Judgment. The Undersigned Hereby Irrevocably Authorizes And Empowers Any Attorney-At-Law To Appear In Any Court Of Record And To Confess Judgment Against The Undersigned For The Unpaid Amount Of This Note As Evidenced By An Affidavit Signed By An Officer Of Lender Setting Forth The Amount Then Due, Together With All Indebtedness Provided For Therein (With Or Without Acceleration Of Maturity), Plus Attorneys' Fees Of Ten Percent (10%) Of The Total Indebtedness Or Five Thousand Dollars (\$5,000.00), Whichever Is The Larger Amount For The Collection, Which Borrower And Lender Agree Is Reasonable, Plus Costs Of Suit, And To Release All Errors, And Waive All Rights Of Appeal. The Undersigned Expressly Releases All Errors, Waives All Stay Of Execution, Rights Of Inquisition And Extension Upon Any Levy Upon Real Estate And All Exemption Of Property From Levy And Sale Upon Any Execution Hereon; And The Undersigned Expressly Agrees To Condemnation And Expressly Relinquishes All Rights To Benefits Or Exemptions Under Any And All

Exemption Laws Now In Force Or Which May Hereafter Be Enacted. No Single Exercise Of The Foregoing Warrant And Power To Confess Judgment Will Be Deemed To Exhaust The Power, Whether Or Not Any Such Exercise Shall Be Held By Any Court To Be Invalid, Voidable Or Void; But The Power Will Continue Undiminished And May Be Exercised From Time To Time As Lender May Elect Until All Amounts Owing On This Note Have Been Paid In Full. The Undersigned Hereby Waives And Releases Any And All Claims Or Causes Of Action Which The Undersigned Might Have Against Any Attorney Acting Under The Terms Of Authority Which The Undersigned Has Granted Herein Arising Out Of Or Connected With The Confession Of Judgment Hereunder.

WARNING--BY SIGNING THIS PAPER YOU GIVE UP YOUR RIGHT TO NOTICE AND COURT TRIAL. IF YOU DO NOT PAY ON TIME, A COURT JUDGMENT MAY BE TAKEN AGAINST YOU WITHOUT YOUR PRIOR KNOWLEDGE AND THE POWERS OF A COURT CAN BE USED TO COLLECT FROM YOU REGARDLESS OF ANY CLAIMS YOU MAY HAVE AGAINST THE CREDITOR WHETHER FOR RETURNED GOODS, FAULTY GOODS, FAILURE ON HIS PART TO COMPLY WITH THE AGREEMENT, OR ANY OTHER CAUSE

If Borrower is resident of Virginia:

Confession Of Judgment. In The Event Of Any Default Under This Instrument, Including, But Not Limited To Any Payment Under This Instrument Not Being Paid When Due, Whether At Maturity, By Acceleration Or Otherwise, Borrower Hereby Irrevocably Appoints And Constitutes Dawn Dibenedetto Whose Address Is 400 N 8Th Street, Suite 1150, Richmond, VA 23219, Borrower's Duly Constituted Attorney-In-Fact To Appear In The Clerk's Office Of The Circuit Court For City Of Richmond, Virginia Or In Any Other Court Of Competent Jurisdiction, And To Confess Judgment Pursuant To The Provisions Of Section 8.01-432 Of The Code Of Virginia Of 1950, As Amended, Against Borrower For All Principal And Interest And Any Other Amounts Due And Payable Under This Instrument As Evidenced By An Affidavit Signed By An Officer Of The Lender Setting Forth The Amount Then Due, Together With Attorney's Fees And Collection Fees As Provided In This Instrument (To The Extent Permitted By Law). This Power Of Attorney Is Coupled With An Interest And May Not Be Terminated By Borrower And Shall Not Be Revoked Or Terminated By Borrower And Shall Not Be Revoked Or Terminated By Borrower's Death, Disability Or Dissolution. If A Copy Of The Instrument, Verified By Affidavit, Shall Have Been Filed In The Above Clerk's Office, It Will Not Be Necessary To File The Original As A Warrant Of Attorney. Borrower Releases All Errors And Waives All Rights Of Appeal, Stay Of Execution, And The Benefit Of All Exemption Laws Now Or Hereafter In Effect. Borrower Shall, Upon Lender's Request, Name Such Additional Or Alternative Person(S) Designated By Lender As Borrower's Duly Constituted Attorney(S)-In-Fact To Confess Judgment Against The Borrower. No Single Exercise Of The Power To Confess Judgment Shall Be Deemed To Exhaust The Power And No Judgment Against Fewer Than All The Persons Constituting The Borrower Shall Bar Subsequent Action Or Judgment Against Any One Or More Of Such Persons Against Whom Judgment Has Not Been Obtained In This Instrument.

If Borrower is resident of Wisconsin:

Each Borrower who is married represents that this obligation is incurred in the interest of his or her marriage or family.

If Borrower is resident of Missouri:

Oral or unexecuted agreements or commitments to loan money, extend credit or to forbear from enforcing repayment of a debt including promises to extend or renew such debt are not enforceable, regardless of the legal theory upon which it is based that is in any way related to the credit agreement. To protect you, the Borrower(s), and us, the Lender, from misunderstanding or disappointment, any agreements we reach covering such matters are contained in this writing, which is the complete and exclusive statement of the agreement between us, except as we may later agree in writing to modify it.

If Borrower is resident of Illinois:


Borrower Agrees That Borrower, This Note And All Other Documents Executed In Connection Herewith, Regardless Of The Choice Of Law Made By Lender/Holder, Shall Be Governed By The Provisions Of The Credit Agreements Act (As Enacted By And Interpreted In The State Of Illinois) (815 Ilcs 160 Et. Seq.) And As That Act May Be Amended From Time To Time.

If Borrower is resident of Oregon:

Under Oregon Law, Most Agreements, Promises And Commitments Made By Lender Concerning Loans And Other Credit Extensions Which Are Not For Personal, Family, Or Household Purposes Or Secured Solely By Grantor's/Borrower's Residence Must Be In Writing, Express Consideration And Be Signed By An Authorized Representative Of Lender To Be Enforceable.

If Borrower is resident of Washington:
Oral Agreements Or Oral Commitments To Loan Money, Extend Credit, Or To Forbear From Enforcing Repayment Of A Debt Are Not Enforceable Under
Washington Law.

Wells Fargo Bank, National Association

By 

Name Division Lending Manager

Title

05/08/2020

Date

COPY VIEW

Borrower Acknowledgement and Acceptance

By signing below, and intending to be legally bound, Borrower acknowledges receipt of the Agreement.

Virtra Inc
By _____
DocuSigned by:
Judy Henry
Name (Borrower's Signature)

Title (Borrower's Title)

If Borrower is resident of Delaware, Pennsylvania, Ohio, Maryland or Virginia:

Borrower (Borrower's Name)
Wells Fargo Bank, National Association
Lender
05/08/2020 | 8:32:47 PM MST
Date

Disclosure for Confession of Judgment

I/We have executed a Promissory Note (the "Note") obligating Borrower to repay the amount described therein.

DS
JH
Initials Initials Initials

I/We understand that the Note contains wording that would permit Lender to enter judgment against Borrower in Court, without advance notice to Borrower and without offering Borrower an opportunity to defend against the entry of judgment, and that the judgment may be collected immediately by any legal means.

DS
JH
Initials Initials Initials

In executing the Note, Borrower is knowingly, understandingly and voluntarily waiving its rights to resist the entry of judgment against it at the courthouse, including any right to advance notice of the entry of, or execution upon, said judgment, and Borrower is consenting to the confession of judgment.

DS
JH
Initials Initials Initials

Exhibit 31.1

CERTIFICATIONS

I, Robert D. Ferris, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended March 31, 2020 of VirTra, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 12, 2020

/s/ Robert D. Ferris

Robert D. Ferris

Chief Executive Officer and President (principal executive officer)

Exhibit 31.2

CERTIFICATIONS

I, Judy A. Henry, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended March 31, 2020 of VirTra, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2020

/s/ Judy A. Henry
Judy A. Henry
Chief Financial Officer (principal financial officer)

Exhibit 32.1

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of VirTra, Inc. (the “Company”) for the quarter ended March 31, 2020 as filed with the Securities and Exchange Commission (the “Report”), each of the undersigned, Robert D. Ferris, Chief Executive Officer and President of the Company, and Judy A. Henry, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- 1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 12, 2020	<u>/s/ Robert D. Ferris</u> Robert D. Ferris, Chief Executive Officer and President (principal executive officer)
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Date: May 12, 2020	<u>/s/ Judy A. Henry</u> Judy A. Henry, Chief Financial Officer (principal financial officer)
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